

NEW ZEALAND'S
NATIONAL WEEKLY OF
BUSINESS, POLITICS
AND ECONOMICS

NATIONAL BUSINESS REVIEW

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Govt's textile fund has role in Mosgiel purchase plans

SUCCESS of the complex rescue operation for the remnants of Dunedin textile manufacturer Mosgiel Ltd rests with the Government as much as with would-be buyer Alliance Textiles Ltd.

After days of haggling in Wellington and Dunedin, Alliance — the savior which backed off when Mosgiel first unveiled its loss situation in the autumn of its life as an independent public company — has emerged as the only prospective purchaser.

The alternative, as Mosgiel receiver Tony Anderson told NBR, was to face closure of the entire Mosgiel operation.

Alliance has only hours to gain approval of its financial arrangements some of which, sources say, revolve around utilisation of the special textile industry restructuring fund which some in official circles were fond of earmarking for other unspecified tasks.

In the last two weeks a plan has emerged which has greatly altered the face of the textile industry.

Alliance will not only acquire Mosgiel's two Dunedin plants, but also its Allford Forest factory in the major move.

In a secondary manoeuvre, Mosgiel is acquiring the Auckland spinning and weaving operations of Prestige

Holeproof Ltd.

Alliance already has 30 per cent of the national market for spinning and weaving and it will add to that Mosgiel's 45 per cent market share.

Prestige-Holeproof will pass over another 10 per cent of the market.

This will leave about 15 per cent in non-Alliance hands: Feltes's fine worsted machine yarn operation, Onelunga's spinning and weaving plant, Wanganui Woollen's pure woollen mills, and Wool Yarns Ltd (Wellington) with a non-worsted woollen spinning capacity.

Alliance will move up sharply in sales volume to about \$32 million in the year which ends in July, from about \$28 million last year.

Mosgiel had about \$28 million in sales, but export content was about 5 per cent of the total, valued with 25 per cent of turnover at Alliance.

In recent weeks Alliance was assisted by falling wool prices, which have considerably reduced the cost of its carpet yarn operation.

Export prices are firm, but demand in some markets is softening.

Whether it maintains both Mosgiel mills — at Mosgiel and Roslyn — will depend on market demand and industrial harmony.

Receiver Anderson and his partner Bill Tompkins deserve considerable credit for the harmony they wrought last week in protracted negotiations which saw the unions concerned determine the outcome of redundancy talks in a way which ensures such payments would be made in the event of Mosgiel's knitwear division closing.

They virtually gave the receivers an ultimatum that little would be transacted on behalf of the debenture-holders unless guarantees were given that any purchase of the knitwear division would carry redundancy agreements.

There has been only one bidder for the knitwear division which does not interest Alliance. This is Christchurch-based Lane Walker Rudkin Ltd, which opened talks based on moving its knitwear assets away from Dunedin.

The receivers are clearly

hoping that they will be able to obtain a bid from sources prepared to continue the operation in Otago. But no-one has appeared with the \$3.5 — \$4 million such a deal would require. And on top of the 277 workers who will lose their jobs in the major restructuring of Mosgiel, another 280 from the knitwear business could be added to the ranks of the unemployed.

LWR found itself a target for a 20 per cent share-buying exercise at 92c by Brierley Investments last week but the target looked thwarted by LWR's "don't sell" which was tinged with a suggestion of a bonus was coming up.

Industry sources are speculating whether Bill, was attracted by the possibility of LWR becoming involved in the carve-up of Mosgiel and saw a share purchase as an avenue for an involvement in textile industry restructuring.

The ante which Alliance must now produce will probably satisfy the \$10 million owed first-ranking Mosgiel debenture-holders, but it is doubted that even the second-ranking debenture holders — owed around \$4.5 million — will be paid in full. This leaves \$2.2 million owed unsecured creditors as unlikely to appear.

It could cause some ripples in trade with even the Catholic newspaper *The Tablet* affected, by its own admission last week.

And the shares were left in the speculator's hands after hovering round 12c for days they fell to be but still lured some punters whose hopes may be based on even greater miracles than have so far been produced in the textile shake-up of the decade.

Even these look like needing the kiss of approval from Trade and Industry Minister Lance Adams-Schneider, according to Dunedin sources.

The best tobacco money can buy



Prices soar while departments scrap

A TREASURY versus Trade and Industry fight over scrap steel exports is threatening Pacific Metal Industries with a hefty penalty.

The Auckland-based subsidiary of Pacific Steel Ltd has pressed ahead with its order for a \$1.75 million car-shredding plant despite Government indecision.

General manager John Williams said the company had been told to expect a decision on the future of the embargo on scrap steel exports by the beginning of June, at the latest by the end of June.

The company is still waiting. "One officer said we could expect the report to be finished within a month, another said within six weeks, while one other we have contacted said nothing is likely for two months," Williams reported.

Treasury is arguing for the embargo to be lifted to allow exports estimated at \$5 million a year to develop.

Trade and Industry is understood to want the embargo to remain because Pacific Metal Industries already has to import scrap occasionally to maintain supplies to its parent and to New Zealand Steel Ltd.

While the departments fight, prices are rising rapidly.

In the last month one component alone had gone up in price from \$74,000 to \$90,000 Williams said.

The company has taken the precaution of placing an order for the American-built shredder with the Wellington agents, R C Macdonald Ltd, at June prices, which Williams says will be held only for another two weeks.

Macdonald has accepted the order with a tag, subject to the Government enforcing the scrap steel embargo.

A technical team from the United States is expected in Auckland within the next two weeks to discuss final specifications.

"If a decision is not made by the time they leave, then the position is going to become critical," Williams said.

"Someone is going to have to pay the penalty for cancellation."

The company already delivers 130,000 tonnes of partly processed scrap to its two main customers annually, saving an estimated \$18 million in overseas exchange.

The week

Inquiring into politicians

A COMMISSION of Inquiry will investigate Lands Minister Venn Young's role in granting a \$106,000 Marginal Lands Board loan to his friends, Jim and Audrey Fitzgerald. The Chief Ombudsman suspended his investigation.

NEW Hebrides chief minister Father Walter Lini rejected French suggestions that independence be deferred from the set date of July 30. The fight for independence has spread to other islands.

PRESIDENT Carter signed "a cautionary" regulation requiring four million American men under 21 to register for military service.

FM radio will not be introduced until everyone can lay claim to television, Broadcasting Minister Hugh Templeton said.

NZ RAILWAYS revealed a design for a bigger and better ferry for the Wellington-Picton route which will cost at least \$40 million.

THE Institute of Economic Research's pre-Budget forecast saw inflation easing and unemployment rising as the economy generally declines into recession.

NEW Zealand's butter quota for EEC markets should be restricted to 90,000 tonnes a year from 1984 the commission proposed.

SHADOW Cabinet Minister Roger Douglas was sacked after publishing an alternative budget without prior consultation with Opposition Leader, Bill Rowling.

TALKS failed to reach agreement on gas contract details between Petrocorp and Alberta Gas on the proposed methanol plant in Toranaki. Alberta Gas representatives returned to Canada.

A SWEDISH proposal to pre-fabricate and tow methanol plants to Taranaki could substantially reduce construction time.

PETROCORP's planned ammonia-urea plant in Taranaki was delayed from some time next year to mid-1982. Reasons: delay in the shipment of plant (although most of it will arrive in New Plymouth this week) from overseas and zoning procedures.

THE Auckland Regional Authority asked the Government to set up a working party to look into an alternative system of local government financing.

THE DAIRY BOARD was prevented by the Government from going ahead with its saving bonds issue because of the high interest rates. The board plans an issue later this year.

ASEAN agreed to appeal to the United Nations to station observers on the Thai-Kampuchean border as a deterrent to further clashes.

ALLIANCE Textile's bid to take over a chunk of ailing Mosgiel was approved by the Woolen Workers' Union. Work will carry on in particular sectors.

A NEW National Parks Authority incorporating Parks and Reserve boards will replace the existing National Parks Authority and the National Parks Board.

COMMISSIONS of Inquiry gained more power when a Bill was passed allowing them to raise the fine from \$40 to \$1000 for failing to appear to give evidence at a summons. Commissioners can now compute and tape-record evidence.

THE LABOUR MP for Nelson Mel Courtney, fighting local party opposition, indicated he may join the National Party for the next election.

THE Government has borrowed 200 million Deutschmarks (\$NZ115 million) at an interest rate of 7.825 per cent.

SINCE last year's Budget the New Zealand dollar has devalued by 5.2 per cent.

THE Government intends to spend \$2820 million (1980 dollars) on energy-related projects in the next five years.

AS a protest against the trading ban, Tasman Mutual Life Assurance Co Ltd sent letters to Government officials and the Police Department.

THE Government increased the daily benefits to patients in private hospitals at an extra cost of \$1,612,000 a year.

MUFTI patrol vehicles will be used more widely during a Transport Ministry speeding blitz to begin on August 2.

RESTRAINTS on the allocation and provision of avgas have been partially lifted.

Smith Blolah Ltd reported an unaudited tax-paid profit of \$1,001,592 for the 14 months to March 31 (\$700,406 for the 12 months to January 31). A final dividend of 11 per cent is payable to August 25.

Spedding Consolidated Ltd reported a net tax-paid profit of \$162,895 for the year to March 31 (\$251,007 last year).

Wilson Neill Ltd reported an audited tax-paid profit of \$1,141,000 for the year to March 31 (\$1,051,443 last year). An ordinary dividend of 16c is payable on August 25.

The week ahead

MONDAY: Consumer Week begins with a Consumer Council meeting in Auckland.

Trade and Industry Minister Lance Adams-Schneider opens Marketing Pacific Congress at the Hotel Intercontinental, Auckland. At 11am the Minister will present a New Zealand Design Award to Acrow-Carpenter.

TUESDAY: Consumer Week seminar: "The Consumer and Inflation", at the Auckland University Library Building, 9am.

WEDNESDAY: Lance Adams-Schneider meets Anwar Fazal, president of the International Organisation of Consumers Unions.

Luncheon to mark the 25th anniversary of Consumers' Institute; speakers include Lance Adams-Schneider and the chairman of the Consumer Council, Emily Carpenter in Wellington.

Alloy Steel (NZ) Ltd annual general meeting in Christchurch.

Radio Avon annual general meeting in Christchurch.

FRIDAY: Lance Adams-Schneider gives a talk to a National Party Auckland Division luncheon club meeting.

Exchange rates

As at July 3, 1980 \$/NZ is worth:

Australia	8525
Britain	4170
Canada	1.1242
Fiji	7879
Japan	213.80
West Germany	1.7183
United States	9827
Austria	12.22
Belgium	27.53
China	1.4199
Denmark	5.3264
France	3.9865
Greece	42.19
Hong Kong	4.8128
India	7.5944
Italy	824.30
Malaysia	2.0928
Netherlands	1.8813
New Caledonia and Tahiti	72.42
Norway	4.7224
Pakistan	9.6203
Papua-New Guinea	9.6203
Portugal	47.78
Singapore	2.0794
South Africa	7.516
Spain	68.58
Sri Lanka	on appl.
Sweden	4.0406
Switzerland	1.6820
Western Samoa	8857

The business week

Airwork (NZ) Ltd reported an unaudited tax-paid profit of \$236,071 for the year to March 31 (\$191,056 last year). A final dividend of 10 per cent is payable on September 12.

Brierley Investments Ltd \$2.5 million bid for 20 per cent of Lane Walker Ruddin shares at 92c faded as the price topped 100c and the LWR directors advised shareholders not to sell.

Brother Distributors Ltd reported an audited tax-paid profit of \$98,262 for the year to March 31 (\$89,737 last year). A final dividend of 6c is payable on July 25.

Cory-Wright and Salmon Ltd reported an audited tax-paid profit of \$444,709 for the year to March 31 (\$223,904 last year). A final dividend of 7c is payable on September 11.

Hawkins Holdings Ltd reported an audited tax-paid profit for the year to March 31 of \$258,910 (\$671,208 last year). A final dividend of 2 per cent is payable on August 12. The company appointed D J Braithwaite as deputy-chairman.

Lane Industries Ltd reported a net tax-paid profit of \$56,654 for the year to March 31 (\$139,063 last year). A final dividend of 10 per cent is payable.

Morrison PIM (Holdings) Ltd reported an unaudited tax-paid profit of \$339,000 for the year to March 31 (\$271,000 last year). A final dividend of 9.5 per cent is payable on August 27.

Neill Holdings Ltd appointed Graham Macdonald to the board.

Network Finance Ltd appointed J T Rowe as chief executive.

Otago Press and Produce Ltd reported an audited tax-paid profit of \$837,030 for the year to March 31 (\$997,443 last year). A final dividend of 11c is payable.

The week

Chatham Islands service proposal ignored by Govt

by Warren Berryman

WHEN Government axed the Wellington-Lyttelton ferry service and increased the freight rates on the heavily subsidised Lyttelton-Chatham Islands service, it had before it a free enterprise proposal to run both services at an unsubsidised profit.

The proposal was either buried by Ministry of Transport bureaucrats or ignored.

Author of the proposal, transport entrepreneur Matt Thompson, has complained to Transport Minister Colin MacLachlan and National free-enterprise champion Derek Quigley.

After discussions with Ministry of Transport officials, Thompson drafted a proposal complete with plans for a roll-on, roll-off ship for Government consideration.

The present Lyttelton-Chatham Islands service is run for the Internal Affairs Department by the Union Steamship Company on an annual \$1.02 million subsidy.

Freight rates for the service were recently increased by 20 per cent.

Thompson proposed to run a three-weekly service from Wellington, to Nelson, Lyttelton and the Chathams on an initial subsidy of \$785,000

reducing to nil subsidy over five years.

Thompson said he would undertake to hold the freight rates at the present level for the five years with the exception of wage and fuel cost increases up to 5 per cent.

In return he wanted a 10-year contract.

The proposal mentioned a new \$450,000 capital company being set up, possibly with American shipping interests, taking a joint venture interest.

A \$1.8 million, 650 tonne roll-on, roll-off vessel capable of carrying containers, bulk cargo and livestock was designed by Thompson.

He produced a feasibility study of costs and cargo revenue showing a system tax profit for running the service.

The present service, operated by the Union Steamship

Company, is for a 10-trip-a-year run from Lyttelton to the Chathams by the conventional ship, the Holmdale.

The frequency of the service has been temporarily increased to transport materials for the Chathams airport and wharf expansions.

The Holmdale plies only between Lyttelton and the Chathams.

The Wellington-Nelson-Lyttelton sector proposed by Thompson would compete with New Zealand Railways and would offset the losses on the Chathams Islands service.

Cook Strait freight rates proposed by Thompson would be cheaper than present railways rates.

Thompson, as managing-director of the Haulways Corporation, Car Haulways, and Nationwide Air, battled the

railways for years. The railways won.

Thompson's car transporting, trucking, and aviation empire was placed in receiver-ship after a long, losing battle with the Ministry of Transport.

Thompson's proposals for the Chathams Islands service apparently did not make it past Ministry of Transport officials.

Internal Affairs Department officials had not heard of Thompson's proposals.

Thompson has since written to the Ministry of Transport saying that because he compiled the proposal at the ministry's behest, and it has not responded despite receiving the proposal in November, it should pay for the work he has put into the feasibility study and ship drawings.

In his letter to Quigley, Thompson said he had in-

troduced to ministry officials representatives of the Crowley Maritime Corporation of the United States, who were looking at the possibilities of a joint-venture in New Zealand.

At the ministry's request, he had drawn up his proposals, Thompson wrote.

"It is for this reason that I feel that as Deputy Minister of Finance in whose portfolio it is to find such monies for subsidies that I feel you, and your respective officers, should be aware that even in these times of rampant inflation, that there are still people, such as myself, interested and experienced in the field of transport, prepared to work on such proposals provided of course there are people competent in the decision making areas to be able to grasp and implement them," Thompson said.



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AIR NEW ZEALAND Your Airline

Muldoon's budget stalls while investment falls

The week

creased at the same rate last year
and consumers reacted by

The sad truth is that this

Government appears to have run out of steam when it comes to managing the economy. It is far more excited by sensational, but unproven, fast track development projects. It seems

Government activities have been cut to the bone, staff ceilings have been kept low and

there have been few new policies introduced and yet spending will increase faster than the rate of inflation next year. Income tax rates and charges for public services get

The rest of the economy must pick up before the Government can show an im-

In the final analysis, an improvement in our economic condition involves private businesses and individual enterprises as well as the Govern-

price, as well as the Government. The Government could improve its own performance, while aiding the private sector, by using the Budget exercise to clearly specify its policy targets

and the means by which it intends to achieve them.

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And given past budgets, they cannot be sure that the Government will stick to the

The Government gives one clear warning, but this is bound to add to the uncertainty of

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Taupo: Suncourt Motor Hotel Beside picturesque Lake Taupo. Our newest hotel to the Group. The perfect central business stopover and ideal holiday stay.

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DIMENSION Overall length 3400 mm Overall width 865 mm Overall height 1410 mm Wheelbase 2250 mm Tired P. 3415 mm R. 1400 mm

Editorial

NEW Zealand is experiencing the longest recession since the 1930s. The growth rate has been negligible since 1975-76. We are grappling with record-high inflation. Unemployment has never been at such an alarming level since the Depression.

Labour's Roger Douglas decided (to his political cost) it is time for bold innovation and a fundamental change in methods rather than fine tuning. The Government obviously disagrees.

Prime Minister Rob Muldoon scoffed at Douglas' boldness, insisting it was illogical to do anything drastic because if the electorate didn't like what was done it would throw out the incumbent party and the new Government would then reverse everything that had been implemented. That, of course, is a cop-out and oversimplifies matters. The public is more astute than Muldoon gives them credit for, and recognise—for example—that election bribes involve a cost.

Muldoon is not only apprehensive of boldness. He also underplays the significance of an annual Budget as a declaration of what few specific intentions his Government might have. And so the details in this year's Budget are scanty—something we must wait for. The Government is reviewing the programme of assistance to the fishing industry... the Forestry Council will hold a conference next year to formulate the future direction of the forestry industry... the Minister of Labour will announce details of retraining assistance for displaced workers... further announcements will be made as the Defence Department's re-equipment programme proceeds...

By failing to spell out the Government's intentions, Muldoon can only add to the uncertainties in the business world.

Part of the problem, obviously, is the Government's economic myopia. Muldoon said later the Budget was uttered to what he could see in the immediate future, for the rest of the year and a little into next. He conceded it was a "holding budget". There was a very volatile situation internationally, he explained. It was impossible to calculate the ramifications, but as the effects were felt, the Government would respond. And there would be more economic announcements when appropriate, he declared.

But the slough of stagnation demands something more than steady-as-we-go. It

should be a time when the nation's objectives and goals are made clear to encourage investment. But business confidence is unlikely to be inspired by a Budget whose fundamental promise is more *ad hoc* Government action at some unspecified time in the future that is bound to have implications for commercial operations.

This time it is the turn of the tourist industry (internal air travel tax), tobacco industry (a surprise restructuring) and business reliant on communications (a hefty rise in Post Office charges) to reel under the impact of Government decisions they could not anticipate.

If there was any change in this year's Budget, it was the evidence that Muldoon is more-market man now, was over to the non-interventionist faction inside his party. He has embraced not only the private enterprise ideal, but also the rhetoric of MPs like Derek Quigley and Ian McLean (although the vital wages issue remains under State constraint). The Budget speech unfolded as a statement of political philosophy rather than one in which the Government's economic strategy was made plain. Important questions were left unanswered.

The Government's idea of restructuring seems to be that it must remove the props which have held up inefficient industries for too long. There is talk about retraining. But where are the jobs for retrained workers? In what industries and locations? Thus there is no evidence of how the workers made redundant in places like Shannon are to be re-employed.

The Government deficit before borrowing is up, and Muldoon conceded there was bound to be more public loans. Nevertheless, he hoped to bring interest rates down. Asked how by a TV interviewer, he cynically said he would implement policies to bring them down—but declined to specify what sort of policies.

The transport segment of the Budget typically shows that the Government is as certain about its destination as the units that carry commuters from the suburbs into Wellington. It reminds us that the 1978 Budget indicated that future steps aimed at promoting the efficient use of New Zealand's transport resources would include a review of transport licensing. Issues arising from

these studies are to be discussed soon with the Transport Advisory Council.

The Budget tells us it is clear that a further significant removal of impediments to competition in the transport of land goods would result in a shift of substantial traffic volumes from rail to road transport. Perceptive, indeed.

Although there would be benefits to agriculture and industry, the costs of structural adjustments "would bear more heavily on the railways system than on the road transport industry, which would be able to adjust in a situation of market growth," the Budget says. "Further studies of the implications for railways are proceeding. These will be taken into consideration before the Government announces its decisions."

But surely the implications for the railways have been determined already, if the Government is pursuing a rational and coherent policy of structural change. After all, it is just a fortnight ago that we heard about the Railways' plans to electrify a substantial portion of the main trunk line in the North Island. The estimated capital cost is around \$100 million, to include the cost of locomotives. About 25 per cent of this will be in overseas funds.

Electrification was supposed to have happened in the 1950s under a 10-year plan announced in 1946 to electrify from Auckland to Papakura, onto Frankton Junction and eventually to Wellington. It has been mooted often over the years since then, but Railways Minister Colin MacLennan seemed to throw cold water on the idea last October when he observed that electrification of the North Island's main trunk railway would save only 0.7 per cent of the national fuel consumption, representing only some \$5 million a year to be offset against the high cost of constructing the line.

Then we learned that Cabinet had decided electrification of the railways was a good thing. But there is no urgency about it. Work won't start for a few years, even though it would absorb a substantial number of those who are now receiving unemployment benefits.

It is unlikely there has ever been a time when electrification was not economical because we have always had cheap electricity. But when we replaced steam engines,

we introduced diesels and sold our electric at bargain-basement prices to Comco. Since then, the Government has helped wean people away from the railways by degrading the system. As the NZR has been steadily run down, lines have become unprofitable; then they have been closed in gradual dismantling of the system. Ironically, the railways have long since lost the appeal for passengers or freight.

Road transport is more convenient in many ways. If the Government is to make electrification programme effective, it must woo people back to the railways at a time when it is talking of more competition. And put greater curbs on oil-consuming transport operators would mean Government interference in the marketplace—antithetical to the National Party thinking that Muldoon began to articulate.

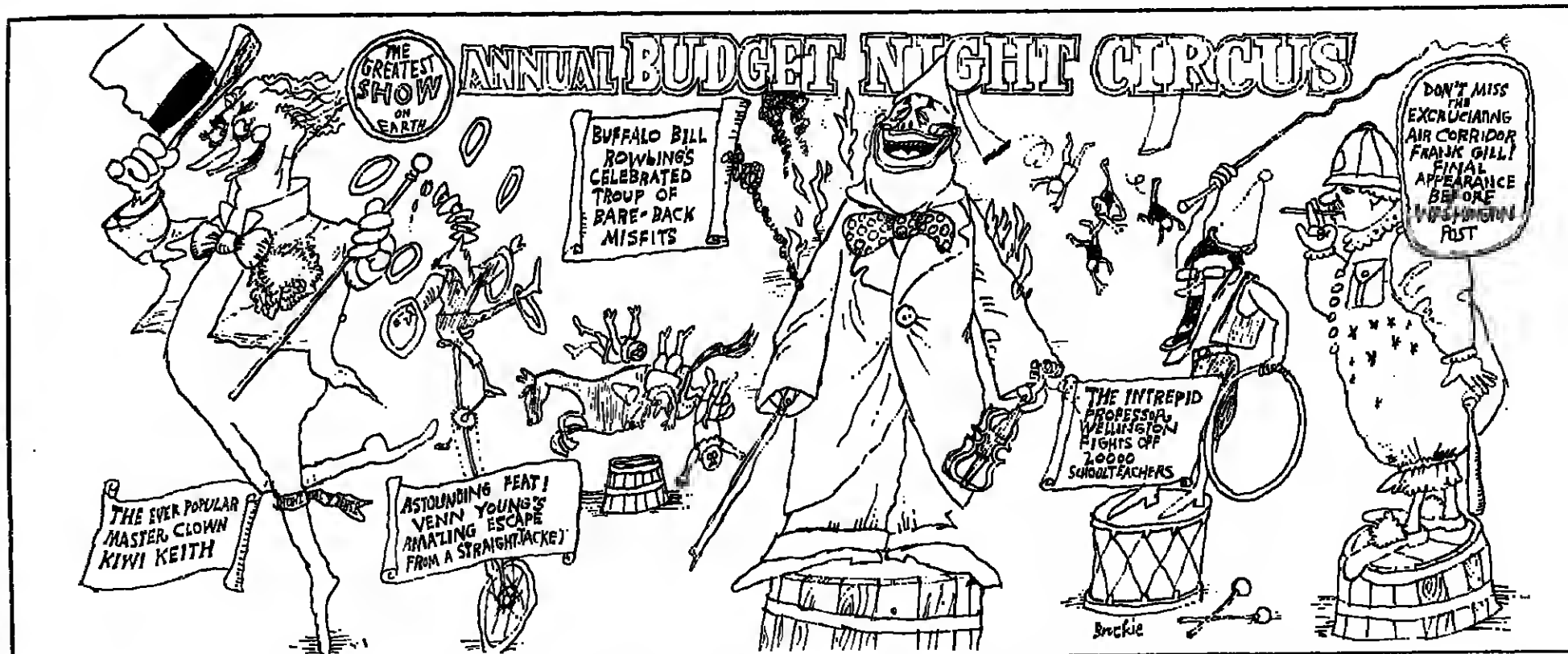
Electrification without modernisation must end in economic disaster. The railway need efficient rolling stock and no injection of new technology. The businessmen must encourage to spend a pleasant time travelling by train with access to telephones and so on.

But all the Government apparently plans to do is put in some overhead cables. What will have then is a railways system incurring huge losses, and devoid of substantial planning.

The theme of this year's Budget, Muldoon said, was "the need to face up squarely and courageously to a difficult period." He pointed—vaguely—to growth in the future something akin to the Promised Land. As told the Wellington Society of Accountants last week, the Budget would point to further steps along the way to a prosperous future.

He recalled in the same speech that when he attended the Kiribati (formerly the Gilbert Islands) Independence celebrations last year, President Tabai told him that one morning for his breakfast he simply elbowed the coconut tree outside his house. "The kind of breakfast is not going to be hit in inflation or balance of payments deficits. Its import content is zero," Muldoon said. President Coolidge promised a chicken every pot. Who knows, maybe Muldoon is pondering the possibilities of a coconut tree in every backyard?

Bob Edlin



Comment

Principle: the whale beyond the red herrings

by Colin James

A SHOAL of red herrings has been dragged across the Venn Young marginal lands loan affair. They should not be allowed to obscure the central issue: the extent to which a member of a board dispensing public money should become involved in the application of a friend.

The answer should be: not at all. Any other answer encourages graft, suspicion and contempt for our democratic institutions.

The decision to offer a loan to Jim and Audrey Fitzgerald, after six months of to-ing and fro-ing, is in itself important. Serious doubts have been raised as to whether people with their limited background in farming, their property interests, their state-paid accommodation with daddy Duncan MacLennan and their rejection of a Rural Bank loan should have been allocated scarce loan money from a state lender of last resort.

Serious doubts have also been raised as to whether the property itself could ever be farmed successfully, given its bleak, exposed nature. But this is a question for the board.

Under the legislation, it has full discretion to decide where its money should go. If you or I had been granted the loan the Fitzgeralds have been offered, there might be cause for doubting the board's expertise or judgment, but not the propriety of its decision.

The propriety turns on the role of Venn Young, who is the board's chairman. Young's role was to write a letter endorsing the Fitzgeralds' case and to present that letter and the case to a meeting of the Marginal Lands Board in January.

The letter did not succeed. In April, after sending a sub-committee off to view the property, the board still refused to grant a loan. It was only later, after further information had been presented by the Fitzgeralds—and there is no evidence that Young helped them then—that they got the offer.

Government backbenchers who had viewed the issue with grave concern when it arose on the Wednesday (June 25)—some of them having background knowledge of the strict criteria normally applied to marginal lands loans—were more relieved on Thursday when the Prime Minister seized on the fact that the loan had been turned down after Young's intervention.

Their relief turned increasingly to dismay as information tumbled out in the news media—particularly in some good reporting by the *New Zealand Herald* and private radio. The Opposition, too, sensing for once a real winner and for once showing the wit and skill to exploit it for all it was worth, kept up the political pressure.

This time a National Government, accustomed to brushing aside the Labour Party gnat, felt the full force of the new legal talent. Geoff Palmer made a powerful speech in the Chamber. David Lange put Young through a ring of fire on the Newsweekers television programme; together the lawyers devised a series of tactics to keep the matter on the boil.

The Prime Minister retreated, right smart, into a commission of inquiry which may very well cook

Young's goose. If it does not, there is always the possibility of recourse to the courts and such a case would attract international attention from administrative lawyers.

The point is not whether the board granted a loan as a result of the minister's representations. The point is whether he should have made representations.

The democratic principle is clear: he should not have.

Indeed, Young himself, aware of the delicacy of the case because of his "close personal relationship" with the Fitzgeralds, carefully avoided taking part in the decision. His comments to the press, on television and in the House make it clear he thought he was keeping his hands clean.

But what he thought he was doing and what he actually was doing were two different things. He did not just pass on to the board the Fitzgeralds' request for a review and the Fitzgeralds' arguments for reversing the original negative decision. He warmly endorsed their request and presented the arguments as his own. "I am confident," he said, "that the applicants have the ability to successfully farm their property, given the opportunity."

Then he presented the case to a meeting of the board, thus being both present at a meeting discussing the case and taking part, as initiator, in the decision.

That would be entirely proper, if the Fitzgeralds were strangers to Young. But they are not. They are personal friends.

That seems to come under the prohibition in the Marginal Lands Act on board members with a "personal interest" in a case attending the meeting at which the case is discussed or taking part in the discussion.

Whether it does can be settled only in the courts. In last week's *NBR* editorial Bob Edlin quoted S A de Smith, perhaps the most authoritative commentator on British administrative law, as saying that close personal friendship should be regarded as a disqualification, provided that it gives rise to a real likelihood of bias.

The board's refusal of Young's request may suggest a lack of likelihood of bias. But that is a simplistic view. Of the eight board members, three are public servants—two of them in Young's and MacLennan's departments (plus the Treasury, never present, on its own astonishing admission). The other four are political appointments by the Cabinet of the day.

After 30 years of nearly unbroken National Party rule, most such appointments on the thousands of boards out there in Quagoland are either members of or sympathisers with the National Party.

For this reason it is critical that Quagolians be seen to be unimpeachably impartial. History is full of examples of democratically elected Governments of long periods of rule becoming susceptible to a slight—and eventually not so slight—bending of the rules. The process is insidious, imperceptible at first, even to the actors themselves.

Young's action was a slight bending of the rules, if not in the legal framework then at least in the

democratic framework. He clearly did not intend to, nor was he aware that he was, so there is no question of corruption on the part of one of the most decent members of the House.

But the principle is greater than the man. How many other slight bendings of the rules have gone

on in other boards? Only a resignation will preserve the principle and uphold that imperceptible, but important, democratic line.

Colin James is the political editor of *National Business Review*.

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Minister's position on carpet trade

IT'S not like our good friend Lance Adams-Schneider to be tardy in replying to our stories. But no doubt he has been kept pretty busy in recent weeks, what with Moggie and Firemakers and so on.

So we are grateful for his response last Thursday to criticism in our June 24 issue of his handling of the Natta carpet negotiations. Naturally, he denies that his procrastination is threatening to wreck our carpet trade in Australia (although he doesn't deny procrastinating).

And he keeps Stevens-Bremner's synthetic carpet hopes alive by not ruling out a veto on synthetic carpet exports to Australia.

For the record, he said: "I reject the contention in your June 23 issue that procrastination by me is threatening to wreck our carpet trade in Australia."

"On the contrary I am seeking to secure an accommodation between competing interests which will bring about increases in our trade with Australia."

A key issue not adequately brought out in your article is that, unlike New Zealand, Australia has

no limitations on the production or import of synthetic carpet for use in its domestic market. In recent years there has been very substantial imports of synthetic carpets into Australia from the United States, Canada and other suppliers. What is at issue here is whether New Zealand should deny itself the opportunity to share in that trade on the same terms as other suppliers.

"It is regrettable that this issue has become interrelated with the question of whether the quantity of 'wool-rich' carpet traded duty-free between New Zealand and Australia under the Natta should be increased."

"The original Natta carpet arrangement was a good deal and so would be the proposed increases in the quantities. I want to see this trade development take place and we are working to achieve that result."

For our part, we thought we had made plain that trying to share the Australian trade is the bone of contention because we would not be competing on equal terms.

We would have a favoured position because there is a 30 per cent duty on Australia's synthetic carpet imports, but we would pay only 10 per cent duty.

And our export subsidies (financed on under GATT) would further enhance our competitive advantage.

No branches in the Garden of Eden?

EDEN's National MP Aussie Malcolm demonstrated yet again the distinguishing trait of most politicians—a casual acquaintance with reality.

Malcolm had the temerity to write to *NBR* (June 9), accusing writer Helen Vause of launching her "political slip"; "the do it yourself guide to picking left-wing journalists."

"Branch" was not the word to apply to National Party electorate organisations, Malcolm said. "The word grates unnaturally."

"Too Labour Party member on the other hand the word 'branch' in that context comes quite naturally."

It was with interest we noted an advertisement in the *Hutt News* earlier this year inviting National Party members in the Western Hutt Electorate to "The following branch AGM's at 7.45pm..."

Lions' roar fails to stir PR team

THE Wellington Lions are roaring to take off from the tame in a chartered Air New Zealand 737 for

a two-hour odyssey over the South Island.

But so far the Lion's Club has booked only 34 of the required 121 seats during the past six weeks.

The price is right. Only \$58 a seat for two hours aloft over such attractions as Mount Cook and the Southern Lakes. And the Lions estimate to make a \$9 a seat profit at that.

So cheap is the flight, in fact, that one Auckland businessman was heard to grumble as he calculated "two hours into \$58. That's \$29 per seat an hour. How come Air New Zealand charges me \$50 for the one hour flight to Wellington?"

We called Air New Zealand's public relations department to find out how the airline could afford to hire a plane to the Lions at \$29 per seat an hour including \$4.50 per seat an hour profit and couldn't afford to drop the tariff on the Wellington-Auckland flights below \$65 per seat floor. Passenger load factors on the Wellington-Auckland route are so high they look like fully booked charters.

But in spite of the fact that Air New Zealand employs more public relations people than this paper employs journalists, no one had heard of the Lions' charter flights.

Perhaps this is due in part to the restriction on advertising charter flights in New Zealand.

NATIONAL BUSINESS REVIEW

Published by Fourth Estate Newspapers Ltd.
Managing Director: Reg Birchfield
Advertising Director: Jan F. Grant
General Manager/Accountant: Stephen Underwood
Editorial:
Editor: Reg Edlin
Production Editor: Brenda Ann Taylor

News & Features:
Colin James, John Draper, Joe Mazemore, Stephen Ball, Jack Hoggins

Contributors:
Francis, Peter V. O'Brien

Auckland Office:
Western City Centre

Advertising Sales:
Maurice Pugh, A.G. Loe

Promotions:
Maurice Pugh, A.G. Loe

Circulation:
Manager: Jan Chen

Auckland Office:
2nd Floor, Levens Building
One Aukland & St. Paul Streets, Auckland
Tel 779-351

Wellington Head Office:
Fourth Estate Newspapers Ltd
15 Blair Street, Wellington M2
P.O. Box 9341
Tel 738-876
Cables: Natbus

Subscription rates: NZ\$25.00
Member ABC (Audit Bureau of Circulations)

National Business Review incorporates *Admark* and is a registered publication weekly (except for last week December and first two weeks January).

Typeset and composed by Computype Services Ltd, Wellington. Printed by Lucas & Son Ltd, 118 Kapiti Road, Pahurangi.

Single copies: 75 cents.
Subscription rates: NZ\$25.00.
Member ABC (Audit Bureau of Circulations)

Letters

Fitzgerald vs the Crown

I AM probably flying in the face of public opinion but I'm moved to comment.

I can understand a public row if a Minister of the Crown uses power and authority to unnecessarily put someone down in our society, or take away their rights.

But are we so very small minded and do we need to level everyone in New Zealand by refusing them the right to genuine, warranted, help if they can get it, from whoever?

No one can help keep things in perspective better than the media. "Straight reporting of the facts" is not a good enough answer to balance the weight of "front page news nationwide" — therefore automatically taking out of perspective a "Ministerial friendship" and making it a matter of national concern?

Surely, constructively and objectively, the fact that the Fitzgeralds are prepared to "bring into production" farmland at present lying dormant, unused and unproductive, hang a large mortgage round their necks and working hard to survive is the real essence of the matter — if so — good on them.

Just which principle is really at stake here?

Are we all going to live in fear of public opinion; have the spirit and courage been knocked out of us by people who want us all to be the same?

If we continue to keep the nonsense up, of trying to level everyone, make Ministerial friendship a "sin", engage in petty, trifling rows which blind us to the real principles involved, we'll indeed all end up a country of sheep — all white — all woolly — all equal — with nothing.

Foye Torrance
PR Consultant
Auckland

Marshall's memory OK

I NOTED with interest the item in the column "Without word of a lie", headed Marshall's memory lapse (NBR June 16).

"Without word of a lie" may be technically correct, but anybody who listened to my speech, or who was present would know that the item rather misrepresented the truth. I quote directly from the *Herald* of June 4. My comments were being made about the Minister of Education: "I am reminded of what a well known political commentator said a couple of years ago. Although I cannot remember where it came from, the commentator said: 'Few members can handle a Cabinet post after only three years in Parliament'."

(Rt Hon B E Talboys): "He's a well known commentator, but you've forgotten his name". (Mr Marshall): "I shall repeat the quotation: 'Few members can handle a Cabinet post after only three years in Parliament.'"

"The Deputy Prime Minister has asked me to remember the name of the commentator. The quotation comes from Muldoon by Muldoon."

Even the *Herald* report does not altogether do justice to what happened at the time. I deliberately trailed my coat to get a bite about the comment from Muldoon's book, before revealing the source. I had quite a few bites. The one I picked up in replying, was that made by

the Deputy Prime Minister. You will note that I did not ever say that I could not remember the commentator's name. That quote came from the Deputy Prime Minister.

I think that you would have to concede that your usual accuracy was not quite "Without word of a lie" on this occasion.

Russell Marshall MP

Sorting ticks from crosses

AS certain statements have been made by the Labour Party and sections of the news media since the publication of the Appeal Court decision on May 23, I wish once more to bring to the notice of the people in my electorate that the "ticks and crosses" issue was not a factor which influenced my being declared properly elected as the representative for Hunua.

I took the petition to the Federal Court on several important grounds which included voting by people who were not resident in the electorate; impersonation; plural voting; forgery and false declarations in special voting.

It is true that voting by ticks and crosses did take place, but it is important to note that such voting was disallowed by the returning officer in the first instance and the Electoral Court merely approved his having done so. The Labour Party in their submissions to the court, agreed that the returning officer had properly exercised his discretion in this matter.

After the recount ordered by the court, 347 were disallowed where party designations had been struck out instead of striking out the candidates' names. Votes disallowed for reasons other than this totalled 491.

Even if the court's recount had allowed the wrongly designated 347 votes and had concentrated solely on the illegally cast votes, I would still have had a comfortable majority.

The table shows the official figures.

If the informal votes were allowed:

Douglas 7315 plus 156 informal votes = 7471

Peters 7507 plus 123 informal votes = 7630

Morrell 2346 plus 64 informal votes = 2410

Robinson 271 plus 4 informal votes = 275

Informal = 213.

The final result if the Court of Appeal ruling had applied in the Hunua case would have been:

Peters 7630; Douglas 7471. That would have given Peters a majority of 159.

The fact that the Labour Party attempted to do a deal with me three hours after the case started and three weeks before voting methods were heard by the court suggests that having seen the weight of the evidence, they knew the result of the election would be overturned, even if the voting issue was decided in their favour. Remember that the Court of Appeal was not concerned with illegal or invalid votes but only with the manner of voting.

If anyone doubts that the Labour Party tried to do a deal with me, they only have to refer to the TV news of Friday May 23 1980, when the former Labour Party candidate, Mr Malcolm Douglas, admitted this allegation.

I have challenged the Labour Party over the last 12 months in

speeches in the House and for the last time on Friday May 23, that if they genuinely believed their candidate to have been wronged by the decision, then they should put him up again in 1981. I now find that they have not accepted this challenge and have chosen a new candidate.

It raises the question: Do the Labour Party expect the people of Hunua to believe propaganda which they themselves do not believe? The matter of who is showing integrity and honour I leave to my electorate and the

people of New Zealand to decide.

Winston Peters
MP Hunua

IN his article Colin James did not say that application of the Appeal Court ruling would have displaced Peters. He said that "perhaps" it would have and qualified even that qualified statement by raising doubts as to whether party designation votes, important to Labour's case in both Hunua and Kapiti, would

have been allowed even under the Appeal Court ruling. Ticks and crosses had been ruled out by the returning officer, but would have been included in a recount if the Appeal Court ruling had been followed and are therefore material to the broader issue. Peters' party breakdown of disputed votes has not — at least to James's knowledge and that of other impartial observers — been consulted — been previously publicly available. The special report to

Parliament merely lists types and total numbers of unusual votes, without giving party breakdown details. — Editor.

Moral letters on Page 2

		December 14, 1978	Recount, 1979
Douglas	(L)	7935 :	7315 (less 620, of which 464 are illegal Labour votes and informal votes 156)
Peters	(N)	7634 :	7507 (less 127, of which 4 are illegal votes for National and informal votes 123)
Morrell	(SC)	2410 :	2346 (less 64, illegal number unknown, informal 64)
Robinson	(V)	275 :	271 (less 4, illegal votes unknown, informal 4)
Informal		213 :	560 (increased by 347 votes)



"Split personality or not? you're only allowed one ballot" — split free of duty?



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MDA198

Politics

The Roger Douglas affair has a way to run yet

by Colin James

THERE is more to come from Roger Douglas yet. The "alternative budget" was but one of a line of independent statements that have strained and will continue to strain his relationship with the party.

Last month, apart from the alternative budget, Douglas made major provocative speeches on:

- Foreign investment — "it is hard to see how New Zealand, under any Government, can do without a considerable volume of foreign investment";
- Transport — "the cost to the user of a transport service should be the long-term economic cost of providing the service".

Inside the party he has circulated papers trenchantly criticising its interest rate

policy as self-defeating and drawing discomforting attention to inconsistencies between other policies.

This month there will be speeches on other topics.

Then will come a book — the thoughts of Douglas on just about everything political under the sun. It will, I understand, be even more challenging to traditional Labour dogma than the alternative budget.

Douglas is a restless, energetic, often nervy man, bristling with (sometimes erratic, sometimes rigorous) ideas, not fitted to the immobile anonymity of party conformism.

He has been building up to his current outburst for some time.

Almost exactly two years ago he came within days of going public with radical tax policies. He was stopped from doing so

only by a previously unsympathetic top brass suddenly taking on board the bulk of his proposals (but adding a foreign exchange surcharge electoral albatross he disagreed with).

Last year he broke new ground with a minimum living income proposal linking tax reform, benefit reform and a higher minimum wage. The paper has had wide distribution within the party and has won considerable support.

Douglas's success rate on major policy formation has been not too bad — certainly it would encourage most politicians to believe their lives were worth living.

Even the alternative budget is not as outlandish as his sacking implies. Most of it he has already floated in speeches without rebuke from above.

Others, some influenced by

him, have been thinking along broadly similar lines. There probably still is a reasonable chance that official policy will eventually reflect much of what he said in his document.

For instance, the centrepiece proposal — a shift from company and farm income tax to an assets investment tax — was specifically foreshadowed by Bill Rowling in his conference speech in May. Overtones of Douglas's thinking can be seen in the tack taken by David Caygill, chairman of Labour's caucus (MPs' economic committee).

The alternative budget's income tax proposals are basically the same as the 1978 policy, but part-financed by a retail sales tax and not an exchange surcharge. The minimum income proposal is also there.

Some have seen in the alternative budget a right-wing document. But, in cutting total tax paid by lower-income groups and upping that paid by the rich, Douglas is pursuing democratic socialist ends. Only his means are different.

Had he gone on presenting his ideas in public speeches, he would probably still be in the shadow cabinet. But, by putting it in a package with a pretentious title and dumping it on the leadership without warning, Douglas left Rowling no real option but to fire him.

Why push it that far?

For one, Douglas has already been a cabinet minister. To be one again in an administration with whose ideas he disagrees is scarcely attractive. He is unlikely to become leader or finance minister.

For another, he has felt he has been making little headway in policymaking forums against the acidic realism of Bob Tizard.

For a third, he has a thriving business in health foods and natural remedies which he enjoys. He thus has no financial need to stay in Parliament.

In the end it comes down to a feeling that he could have more influence — or at least make more public impact — outside the shadow cabinet than inside.

By January he had virtually made up his mind to indulge that preference. On April 2 he wrote to Bill Rowling that he was unhappy as shadow transport minister and was contemplating resigning from the front bench.

(At the time, by coincidence, a rumour buzzed in National Party circles that he was "making a run" for the leadership. Well, not quite right.)

The reaction from the top was to hope a junkie to North America and Europe in May would restore him to his senses and to offer him the post of associate shadow finance minister (to Rowling).

Neither worked. He came back determined to resign on June 7; was talked out of it by friends; but in the end departed in circumstances that guaranteed maximum exposure for his ideas. If he had not gone now, he would have when his book appeared.

The alternative budget was not a challenge for the leadership, nor a spearhead thrust on behalf of any group.

Douglas put it together on his own, consulting only four people on the contents — an economist, a lawyer, a university professor and a state servant — and then only at the final draft stage.

It was a personal move, almost a *crise-cocur*, rather than a political manoeuvre.

But it had political effects. One was to catalyse suburban discontent with Rowling's leadership, to make the shaky unity of a badly divided caucus a little shakier. Rowling was not immediately threatened. Ranks closed behind him as bewildered MPs mused on Douglas's rush of blood to the head.

Both Douglas and Rowling got well-deserved abuse for letting the matter steal headlines from the Venn Young loan affair, Labour's biggest gift for a long time.

Douglas was accused of bad judgment, irrationality, disloyalty (and worse). Rowling was accused of failing to head the matter off when he had had warning in April of Douglas's

state of mind — or at least failing to arrange the resignation more smoothly.

Out came the hopeful leadership headcounters, only to run up against the impossible arithmetic of the factional standoff.

Instead there was talk of moving in caucus (the weekly meeting of all MPs) to refuse to accept Douglas's resignation from the policy council (a caucus prerogative), but such a challenge to Rowling was unsustainable. He is still best bet for 1981.

The hierarchy had recognised the weight Douglas carries in the party in its new seating arrangement in the House.

The leadership refused, in the words of a senior colleague, "punishment which would gratify the offender's wish", that is, banishment to the distant back benches. He was moved one row back to occupy the shadow cabinet seat left vacant by his own departure.

The slight move also implied an expectation of more conformity in the future. But Douglas last week was in no mood to comply.

He felt — and others felt with him — that he had touched a nerve in the electorate.

Some of the favourable comment he got in talkbacks and letters was no doubt from mischievous anti-Labour types. But there was also some favourable reaction from within the party and from the soft political ground where potential switchers lie.

Douglas has latched on to two important points:

- That tax is a killer for people on and above the average industrial wage who cannot escape it as the rich can. According to survey evidence, these people have been drifting away from Labour, the party associated in the public mind with high tax;
- That there is a yearning in the electorate for a lead from politicians.

Both points are recognised by a growing number of Labourites inside and outside Parliament.

In particular, an informal group of about 15 sympathisers, including half a dozen economists, has been spasmodically urging radical policy changes on a largely unresponsive policy council and increasingly receptive caucus committees headed by 1978ers.

The rationale for radical policy changes is that without a clear sense of a bold new direction worked out well in advance of the 1981 election, Labour runs a serious risk in a 1981-84 Government of being trapped into administering a declining economy, with all the electoral poison that entails, without communicating to the electorate the sense of purpose that might act as antidote to the poison.

The rationale for caution is a fear of a serious split in the party and with conservative union leaders which could wreck the chances of a win in 1981. Rowling, doing his level best to hold a divided crew together, is trapped in an ambivalence only partly of his own making.

The stakes for Labour are high. Douglas's dismissal resolves nothing. It has merely brought into sharper public focus the critical six months ahead.



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Economics

Douglas rejects fine-tuning approach to economy

Economics
Correspondent

THE 1981 Budget comes mid-year in the election cycle. Traditionally, this is time for storing up for the election-year bonanza. And Finance Minister Rob Muldoon believes that "this is not a time for major changes to be initiated".

Labour's ex-shadow cabinet minister, Roger Douglas disagrees. In response to Muldoon's announcement of a no-change budget, Douglas released his alternative budget.

And as if to show his disgust at the influence of politics in economic decision-making, he released the alternative when it was bound to distract the media from the Labour Party's point scoring over Lands Minister Venn Young's political interference with a decision of the Marginal Lands Board.

Opposition Leader Bill Rowling had not previously seen the alternative budget and reacted to the poor timing of its release by seeking Douglas's resignation from the shadow cabinet. This assured a public airing of the economic issues treated in the Douglas alternative.

Douglas claims "the time has come for bold innovation, for taking the tough options we have ducked for 30 years. The time has come for a budget which sets new directions."

These new directions do not

exist in fine tuning of the economy, but involve what Douglas believes is a fundamental change of attitudes and methods.

The main problem with Douglas's budget is that it does not make clear what direction he should be headed in. After talking about the need for a change of direction (to where?), he goes straight on to a discussion of policy aims and methods he thinks will achieve these aims.

It is left for the reader to determine whether Douglas has strayed from the Labour Party's near-socialist thinking to that more akin of a free-enterpriser.

Underlying Douglas's alternative is the view that we are not realising a high enough rate of return on our assets. And the reasons for this appear to be too much subsidisation and too little investment.

To eliminate cross-subsidisation and make the economy more responsive to good investment opportunities, the alternative budget proposes to remove subsidies and tax incentives to all industries (including farming) and to devalue the dollar. Also proposed are changes in the tax system, replacing the company income tax with an assets tax, replacing death duties with gift duties and gathering a greater proportion of revenue from a universal sales tax.

There are many causes of this poor investment showing. The Economic Monitoring Group Report No 3 says that "high rates of inflation recently experienced have undoubtedly played a significant part. High

ESTIMATED PRIVATE SECTOR INVESTMENT
(1971/72 CONSTANT PRICES)

Merch years	Residential buildings		Non-residential buildings		Other		Total	
	\$ million	per cent change	\$ million	per cent change	\$ million	per cent change	\$ million	per cent change
1971/72	292	ne	194	ne	499	ne	885	ne
1972/73	338	19.9	181	-1.8	554	18.1	1073	14.9
1973/74	387	17.5	221	22.1	603	9.9	1211	13.8
1974/75	375	-5.5	245	10.9	595	-8.3	1195	-2.9
1975/76	381	-3.7	199	-18.8	519	-8.1	1079	-9.9
1976/77	395	9.9	196	-1.5	501	-3.5	1082	0.3
1977/78	317	-17.9	171	-12.9	377	-24.8	865	-20.1
1978/79	259	-18.6	154	-9.9	414	9.8	828	-0.5
1979/80	217	-15.9	142	-7.9	434	4.9	793	-4.0
1980/81*	217	0.0	129	-10.0	379	-13.0	724	-9.0

* Forecast
Source: NZIER, derived from New Zealand system of National Accounts

Something needs to be done to stimulate investment.

This point has been emphasised in recent reports by the New Zealand Institute of Economic Research and the Economic Monitoring Group.

As the table shows, total private investment has fallen in real terms (volume terms, that is, the value of investment adjusted for inflation) in virtually every year since 1973/74. It is now about one-third lower than it was in the mid-1970s.

Agricultural investment has also fallen during the 1970s, although it has shown some inclination to improve over the last year or so.

There are many causes of this poor investment showing. The Economic Monitoring Group Report No 3 says that "high rates of inflation recently experienced have undoubtedly played a significant part. High

inflation tends to result in high interest rates, high uncertainty and high taxation of what are, in part, illusory corporate profits (since without inflation accounting, these are not adjusted for the rate of inflation). All of these factors are inimical to private investment."

The alternative budget does not deal specifically with the problem of high interest rates or inflation. It seems that Douglas's aim is to make the economy more productive and in this way, bring about a lowering of the inflation rate. His overall discussion would have been more complete if he had stated what monetary policies were consistent with this aim.

High uncertainty appears to be mainly the fault of the Government. In Douglas's view, he said: "What we need is the kind of economy where

people can have a degree of responsibility for their future."

Douglas's method of raising investment is to lower taxation and to encourage savings so as to provide resources for investment.

A rise in the level of savings would at the very least lower interest rates, but experience has shown that it does not have a great deal of influence on new investment (you can lead a horse to water, but you cannot make him drink). An abolition of the company tax, as Douglas suggests, would leave companies with more funds for productive investment.

And companies and farmers will be less inclined to fritter their profits away under Douglas's proposal for a tax on capital and assets.

While the income on productive investments will not be subject to tax, the increase in

the value of capital assets would be. This would have the added advantage of increasing the mobility of capital. Capital would no longer be locked in large enterprises, but would flow to the most profitable areas of activity.

To further ensure that investment is responsible to the price mechanism, Douglas would remove export incentives and subsidies, including allowances and cases where Government services are offered at below market price.

These proposals would ensure that future investment went into what the market determines to be competitive areas of the economy, rather than subsidised areas.

Distortions in investment patterns would be reduced by putting life insurance companies on the same footing as other financial institutions. To achieve this aim, life insurance policies would no longer be tax deductible.

To give viable resource-based industries the best potential to compete internationally, the alternative budget calls for an immediate devaluation of 20 per cent.

Social Democrat Douglas does not entirely forget his Labour Party origins. He hopes to strengthen the welfare state with his proposals.

All New Zealanders will receive a minimum living income and Douglas would fix this minimum at a level to allow for the effects of devaluation and the universal sales tax on low incomes.

Foreign access to US banking reaffirmed

UNITED States bank regulators have reaffirmed the right of foreign banks to acquire American banking institutions. They contend that denial of such transactions could hurt American commercial interests and cause retaliation by foreign governments.

Currency Comptroller John G. Heimann told a congressional panel that Government regulators could halt such acquisitions if they felt there were any threat to the American banking industry. But he said that such action, in effect, would amount to putting up a discriminatory screen against foreign entry, denying many foreign banks the opportunity to compete in American markets.

"Retaliation by foreign governments would probably follow, to the detriment of our own commercial interests," he said.

"Most importantly we would deny ourselves the benefit of foreign competition, expertise and capital in our domestic financial markets."

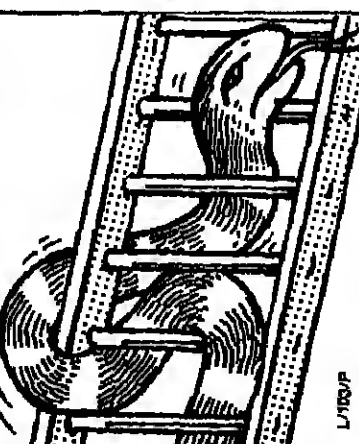
Heimann, who regulates all national banks in the United States, gave final approval to the acquisition last year of Marine Midland Bank, the 14th largest in the country, by the Hong Kong and Shanghai Bank (HSB).

At issue in the Congressional hearings is whether the acquisition was proper because of HSB's non-financial commercial interests. American banks are prohibited by law from engaging in non-financial activities.

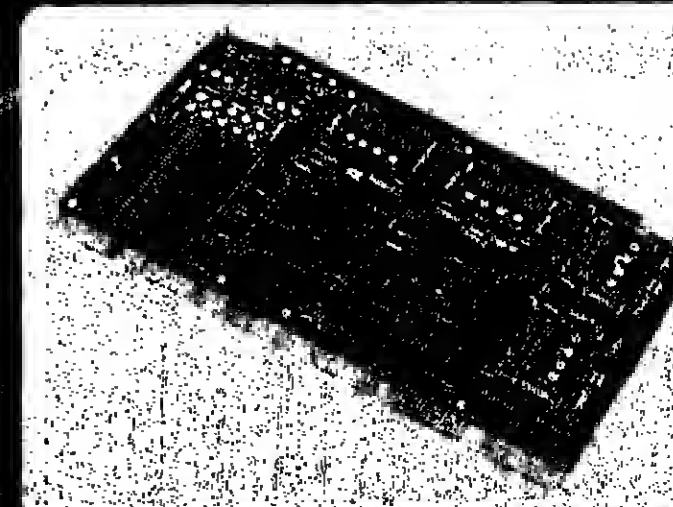
Heimann said that not permitting such acquisitions by

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Institute forecasts a sharp decline in terms of trade

THE Institute of Economic Research's *Quarterly Predictions* for June suggest that belt-tightening will continue into 1981.

While the institute's forecasts may be described as "gloomy" in some quarters, and "unduly pessimistic" in others (no prizes for guessing who might use that term), they are realistic assessments of likely economic developments, based on current data and current policies.

The latter can change regularly, but the institute is operating a research forecasting system, and therefore it is logical to relate trends to present policies, while making the point in the text (as it does) that trends may change in line with policy adjustments, subject to the built-in time lags between policy decisions and their im-

act on the economy.

The institute's forecast of a 23 per cent increase in direct taxation to 1980-81 is an example of the problem inherent in predicting trends, on the basis of current policies.

"The expected growth in employee compensation coupled with fiscal drag at present tax-rates is the basis for this prediction. Indirect taxes are increasing less rapidly."

This is an area where Government decisions can affect the assessment in a relatively short time, particularly in the field of indirect taxes.

The institute considers there will be a "sharp decline" in the terms of trade during 1980-81, arising from "higher oil prices and a forecast weakening in commodity export prices particularly for wool which, as we commented in the last issue, is

PETER V O'BRIEN comments on the financial and business weak, appraises the share market and analyses company accounts.

based on a weak international economy in 1980."

That statement is a summary of everything else which affects the New Zealand economy, apart from a valid conclusion in its own right.

The external constraint is the fundamental influence on internal events, and changes in the external constraint set the boundaries for action internally, assuming that the politicians and administrators maintain sanity in their conduct of the nation's affairs.

An assumption that the New Zealand exchange rate will continue to be depreciated at about 0.5 per cent a month is in

line with monthly devaluations over the last year, which took the total depreciation of the dollar, including the 1979 Budget night cut of 5 per cent, to 10.2 per cent.

The institute's forecasts for stock have implications for businessmen in the manufacturing, wholesale and retail sectors. Referring to the *March Quarterly Survey of Business Opinion*, the authors say there is now less need for concern over stock levels than that expressed in the *March Quarterly Predictions*.

That is then qualified: "This is not to dispute that stocks appear higher than desirable,

even following the rapid increase in retail and wholesale turnover over the last two quarters. Retail stock increased 20.1 per cent in value over the 12 months to March 31, 1980, and wholesale stocks by 24.8 per cent over the same period. Manufacturers' stocks at March 31 are not yet available, but probably increased by similar proportion. However, it seems that there is to be no emulation of the build-up in stocks/turnover ratio which occurred three years ago and peaked in December 1977. It was the correction of this which played a major part in the 1977-78 downturn."

The institute estimated the increase in total stocks over the year to March 1980 of \$1255 million. An increase of \$930 million is forecast for 1980-81.

Taken in conjunction with comments on inflation, the effects of recession, the external position, and overall economic growth in the next 12 months, an amount of \$930 million added to present stocks may also be "higher than desirable."

This is another area where the forecasts can be self-defeating, in the sense that people can base policy decisions on the predictions. For example, if businessmen (or those businessmen who follow the institute's work) decide that the comments are valid, they

may decide to take appropriate action on stocks, which in turn would affect the forecast, and thus make it "wrong".

The institute says in a note every issue of *Quarterly Predictions*: "Readers will agree that economic forecasting is a chancy business, for in addition to our own imperfect understanding of the way the economy works, there are also likely to be errors from chance factors such as changes in the weather at home and overseas, from inadequacies in our basic information and from the unknown effects of political events."

Forecasts of the inflation rate for 1980-81 will probably provoke the greatest debate on the latest issue of *Predictions*. The institute says the rate will be in the region of 16 per cent averaged over the year.

We have many forecasts of inflation from many people, averaged or not averaged, and we also have to take note of the "underlying" rate which is supposed to remove the "one-off" items. The trouble with that concept is that new "one-off" items have a disconcerting habit of appearing each quarter in the CPI.

If the institute is correct in a 16 per cent average inflation rate through to 1981, the next nine months will be another tough period for the citizens.



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Secondline stocks offer

FORESTRY is still king of the sharemarket, but smaller companies are producing good results, and additional benefits for shareholders.

Donaghys Industries and Wilson Neill announced bonus issues with their preliminary results. Autocrat Holdings (renamed Autocrat Sanyo Holdings (NZ) Ltd) told shareholders at the recent annual meeting that they would receive a one for five bonus by September 30.

Wilson Neill's dividend will be paid on the bonus increased capital, so the company effectively raised the payment. Donaghys increased its dividend and will also pay it on the higher capital. The shareholders improved their position in two ways.

The Auckland engineering group, D McL Wallace, omitted a bonus this year, after four one for 10 issues between April 1973 and April, 1978 (next year perhaps), but raised the dividend to a total 6.25 per cent (12.5 per cent) compared with 5.5 cents (11 per cent) last year.

The D McL Wallace preliminary report had an unusual statement. While profit rose 18.9 per cent, the directors say it omits the result of an overseas associate, but that result "will not be unfavourable".

The overseas associate, appears to be Advanced Industries Ltd, based in County Kerry, Ireland, in which Wallace has a 49 per cent interest (see *NBR*, January 31 1979), although it could be Wallace's Australian outlet.

Different balance dates, or some other reason, may explain the omission, but in the absence of an explanation it seems strange that a company would fail to refer to proportionate profitability from the associate.

The other possibility is that the overseas company's accounts are unfinalised, so there



Cordege... feeling effects of IDC report

could be a further comment in the annual report.

The "not unfavourable" reference may be an understatement, depending on the general trading situation of the Irish company, which recently substantially expanded its facilities (assuming the reference is to Advanced Industries).

Wallace exports components to the associate, on which it presumably picks up an export incentive. Irish corporate tax is only 10 per cent, and other industrial incentives and allowances may still be available to the company in that country (take note New Zealand industrial development administration).

Wallace had difficulties locally, as a result of problems with approvals for gas conversion equipment, but the company has performed well over the years, both in terms of profitability and on the market. The run could continue in future.

Donaghys appears a little underpriced, even at \$20 a share for six bonus. The group earned 60.58 cents for each dollar share in the year ended March 31 1980, or 58.22 cents after allowance for the dividend on the company's specified

Analysing accounts: Tasman Pulp and Paper Co

TASMAN Pulp and Paper Company's annual report details the remarkable recovery outlined in the preliminary figures.

The preliminary report put net profit at \$27.7 million, but naturally gave little additional information.

The annual report shows the company achieved an extraordinary ratio of cash flow (net profit plus depreciation and exchange losses) to total assets.

Tasman recorded 5.6 per cent in 1979. Last year the figure jumped to 17.54 per cent, when cash flow reached \$45.6 million and total assets were \$260 million.

Group sales increased 43.2 per cent, but there was an uneven percentage gain between export and domestic sales. The former moved to \$141.6 million, compared with \$103.2 million in the previous year, an increase of 37.7 per cent.

Domestic sales (struck from a lower base) recorded a rise of 57.9 per cent, closing the year at \$66.1 million.

The controversial "export incentive credits" is the next item in the profit and loss account. Tasman "earned" \$10.7 million from that "activity" last year, as against \$7.7 million in 1979.

Tax credits were partly responsible for the massive improvement in group profit, but

control of costs, and higher productivity, were more important reasons.

The cost of raw materials and similar items was 23.6 per cent higher, wages, salaries and "other employee costs" went up 33.69 per cent, and depreciation gained 18.7 per cent over the previous year.

"True" profitability can be tested by comparing the ratios of profit before and after finance costs, and removing the tax credits.

Tasman's "profit" on this basis was 13.7 per cent of turnover before finance costs and 8.1 per cent after bringing those charges to account.

In 1979 the corresponding figures were respectively 1.96 and a deficit (tax credits were \$7.7 million in 1979, and net profit after finance costs, but including the credits, was \$1,167,000).

The adjusted profit and loss account shows that Tasman still performed well after removing the distorting effect of tax credits.

The well-written reports from chairman Ron Trotter and managing director Carl Ryan confirm that the company improved productivity and efficiency.

The excellent profit performance and cash flow allowed

the group to put its balance sheet in order.

The revamped consolidated balance sheet should result in a substantial reduction in exchange loss exposure in the current term.

A drop of \$12.5 million to \$50.3 million in term liabilities is a feature of the accounts. The net debt retirement is a combination of several moves over the past year, the main one being the repayment of \$27,172,000 in Eurocurrency loans.

The company also reduced its "suppliers' credits in foreign currency" from \$6 million to \$4.5 million, and increased bank loans on the local market by \$5 million to \$14 million.

Exchange losses on overseas loans were \$2 million last year, compared with a gain of \$1.1

million in 1979, so the financial reorganisation should improve profitability in 1981, with the virtual elimination of exchange risk, subject to only drawing down a \$US10 million standby credit facility with a term of three years.

The company wrote off \$5.7 million in the profit and loss account, an amount which included the balance of the exchange fluctuation reserve.

The Tasman report is commendable for the clarity of the notes to the accounts, and the depth of information included. For example, some shareholders will be surprised to see that "mill buildings and plant" are shown in the books at \$160 million, but have a replacement cost of \$780 million as at March 31 1980.

The reorganised directorate

Shareholders should also note that the company has carried forward tax losses of \$31 million available to offset against future assessable income.

The disclosure of expenses is welcome, as is the availability of costs of leasing and renting (2.8 million last year compared with \$3.2 million in 1979). The company included the cost of forward commitments on leases for the years ending March, 1981; from 1982 to 1986; and beyond 1986.

The reader, or potential investor, gets a statement of exposure to foreign exchange fluctuations in relation to sales. In 1979-80 about 70 per cent of gross sales was in foreign currencies, "mainly US dollars".

The reorganised directorate

and management group probably explains the new report format, with Challenge Corporation directors (including Ian Small, Challenge's finance director), Fletcher Holdings managing director, Hugh Fletcher, and the former deputy controller of Dunlop in London, Michael Hood, on the board. Hood is associate director, finance and planning.

Tasman omitted a statement of current cost accounting. The statement would be relevant in a company which has a plant replacement cost \$620 million above book value, and forest assets valued at \$16 million, but with a consolidated Government valuation of land, and insurance value of the crop, totalling \$33.7 million.

reasonable pickings

preference shares, but before writing back the taxation advantage on that scrip (a normal analytical technique).

The shares are selling at 5.49 times historical earnings at \$3.20 cum bonus. The group's cordage business may feel some effects from the IDC report on rope and twine, (*NBR* June 27), but it appears that it will not be seriously affected.

The ex-bonus capital will carry a dividend yield of 6.2 per cent, since the higher final is paid on bonus increased capital. The directors can be presumed to maintain the payment in future, subject to extraordinary circumstances.

Donaghys' profit is "real" in the sense that a 34.75 per cent increase in net profit accompanied a taxation lift of 45 per cent. The company's profit failed to increase solely at the expense of Inland Revenue.

No sales figures were given in the preliminary report, so it is impossible to calculate the local and export revenue.

Wilson Neill, Dunedin-based wholesaler and exporter, is recommending a one for 10 bonus, although profit was only 8.5 per cent up. Group sales were down about \$3.4 million, or 7.66 per cent.

In Wilson Neill's case tax is one explanation, but not the only way for an apparent paradoxical result. Tax liability fell from \$446,383 to \$375,993,

the difference being the effect of higher export incentives.

The sales reduction makes sense, because the company sold its grocery division after only two months trading in the 1979-80 financial year. Sales volume in groceries can be high, but margins are fine, and often drag down overall profitability and the return on investment.

The share price responded to news of the bonus and to the statement that "most of the dividend would be tax free". The decision to split the shares to 50 cents units from \$1 is probably another reason for the price reaching \$3 last week. A share split often has the effect (noted here in the past) of lifting the price of two split shares beyond the previous level of the unsplit unit.

At the present price (and subject to the bonus) it could pay potential investors to hold off until the share splits takes place, and, if they still want a position, to buy in at that time.

Heavyweights have overshadowed the smaller companies this year, in a turnaround from the last few years, but the results coming through show that there are still reasonable pickings in the secondline stocks.

Note: The writer neither owns nor has a beneficial interest in any of the securities discussed here.

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Growers putting the squeeze on citrus authority

by John Draper

REBEL orange and lemon growers will be trying to squeeze the Citrus Marketing Authority out of existence at a two-day conference in Auckland this week.

The authority, which has powers of compulsory acquisition, has never been welcomed by Bay of Plenty growers.

Since 1953 the pips have rarely stopped rattling. Last year the growers won the fight to have the authority's mandatory powers lifted.

They want to complete their victory by disbanding the authority and dispersing its assets — three packing houses and a piece of prime real estate in Tauranga.

The authority is resisting. Chairman Ivan Sunde said the assets of the industry have been

built up over 27 years and cannot be arbitrarily broken up and distributed to existing growers. Many were not involved when the authority was established.

Bay of Plenty growers will put to the conference a plan for growers in each of the three main areas to take over the packing houses in their regions — dispersing the authority's net assets of \$800,000.

For example Poverty Bay growers will get the Gisborne packing house and the liability of a Rural Bank loan for a nominal sum, while Tauranga growers are paid \$300,000.

The Tauranga rebels also want to keep a valuable site in Tauranga, zoned Industrial C and conservatively valued at \$685,000 within their control.

Each region — the third is

based around Kerikeri — will then operate a co-operative packing and marketing organisation.

Consumers will be the only beneficiaries in the immediate future, in the authority's view, as the three rivals "cut each other's throats". In the long term even the consumer will miss out, as growers take chainsaws to the citrus groves to cut their losses.

The authority's history and the growers' problems stem from an overproduction of lemons in the early 1950s, when a Labour Government saw the solution as a compulsory marketing authority.

The bitterness came to a head five years ago at an annual conference in Auckland. Then the Bay of Plenty growers succeeded in getting a motion passed to disband the authority.

It never happened. One region wanted to go alone with its co-operative, another showed almost total disinterest and did nothing, and the third foundered as the nucleus company went into receivership.

Three years later the annual conference approved a five-year development plan for the authority which would eventually result in processing facilities being established in all three regions.

More than \$400,000 has already been spent in upgrading facilities.

Kiwifruit's spectacular export earnings have not helped. Some citrus growers were quick to spot the potential, the majority have been left behind with less profitable oranges and lemons.

In recent years many growers have been marketing on their own account, either

direct from their own groves or from roadside stalls and parked trucks. Others have tried direct marketing, but have been burnt by the authority's legal acid.

Last year, with its full marketing powers, the authority handled 6500 tonnes of fruit with a turnover of \$3 million, up from \$1.8 million in 1978.

The authority is working on schemes to present to the conference to give growers some independence and preserve a single marketing body.

Membership of the co-operatives would be voluntary and allow growers to market independently.

The authority is confident that 50-60 per cent of existing growers will want to be co-operative members, still through an elected citrus marketing "board".

It is likely that grapefruit, mandarin and tangelo growers will be invited to join the co-operatives.

Two problems are already hanging on the branches of the new organisation. First, will it get enough throughput to be the packing and processing facilities operating economically? Second, an oversupply of oranges and lemons has been forecast for 1983.

Law

Securitibank hearings

SECURITIBANK liquidator Harold Goodman made clear his intention to bring a case against Securitibank directors and shareholders on behalf of creditors in the Auckland High Court last week.

Goodman sought court approval to take a common law action against Securitibank shareholders, in the interests of creditors, or to fund an action, already initiated by the Securitibank Investors Consortium, in the name of the Auckland Paraplegic and Physically Disabled Society Inc.

The hearings before Mr Justice Barker were proceeding when *National Business Review* went to press.

Mr Justice Barker has indicated that he will reserve his decision at the end of the proceedings.

Goodman has stated his intention to bring actions:

- Under section 320 of the Companies Act against Securitibank directors alleging that they carried on a business with the intent to defraud;
- Under section 321 of the Companies Act alleging delinquency on the part of Securitibank directors;
- Under section 364 of the Companies Act, also entailing a section of the Insolvency Act, alleging that Securitibank share-

holders and directors knowingly and willingly continued to solicit monies from the public when they knew their company to be insolvent.

• Under common law, on behalf of creditors against Securitibank shareholders.

Goodman also seeks recovery of the \$520,000 paid out by Securitibank dividends in 1975 and 1976 to shareholders on the ground that this money was paid out of capital — not profits.

The deficit estimated by Goodman was between \$25m and \$30 million measured in 1976 dollars (Securitibank crashed in December 1976), excluding interest or hardship caused to Securitibank creditors.

There are a maximum of 7000 Securitibank creditors which about 4500 are holders. The liquidator has received and processed more than 15,000 proofs of debts.

In defence were the Securitibank shareholders, the major insurance companies including Government-owned Government Life and State Insurance.

The defendants contested the liquidator's right to take a common law action and requested a time limit of three months to be placed on the initiation of the liquidator's actions.

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Moteliers warned about tourist guide publisher

by Warren Berryman

MOTEL owners are receiving invoices claiming amounts due for advertising space in a directory that has yet to be published.

The bills come from an Auckland company called Pen Publishing Ltd, a \$2000 capital company owned by Manu and Savita Chhima.

Motelier members of the Coromandel Peninsula Motel Association have been warned by their organisation to steer clear of this publishing company.

Some of the recipients of Pen Publishing's invoices say they have never heard of the publication *Hotel and Motel Tourist Guide*, much less ordered advertising space in a magazine of unproven circulation or quality.

But some of Pen Publishing's invoices have been paid, apparently because moteliers have confused Pen Publishing's guide with *Hotels and Motels*,

sister publication put out by Jason Publishing Co Ltd.

Jason Publishing's *Motels* has been out for 16 years' listing 1340 motels. The same company's directory *Hotels*, has been out four years and lists 800 hotels.

Manu Chhima said his magazine would not be out for another two months or so.

That's what Chhima told *National Business Review* some months ago when we questioned him about invoicing companies for another publication, *National Farm and Safety*.

Chhima was invoicing companies for advertising money "due" to *National Farm and Safety* as early as March. The magazine has still not appeared.

Jason Publishing's John Sandford, said he was concerned that moteliers might be

sending money to Pen Publishing in the belief they were buying ad space in his publications.

Coromandel Peninsula Motel Association president Arthur Glazer received an invoice from Pen Publishing for a half-page ad for his motel — the Mercury Bay Motel. The invoice said "a discount of 7 per cent is available for immediate payment — total due \$170".

The invoice gave the impression that Glazer owed Pen Publishing \$170 and thanked him for his "advertising support".

But Glazer said he had no recollection of ordering the ad. He did say he had a phone call from Pen Publishing on May 12.

"The lady on the phone said I had already committed myself to a half page ad and asked if I'd

like to convert this to a full-page," Glazer said.

Glazer said he had discussed the matter with other members of his Motel Association and found they had similar experiences with Pen Publishing. After some discussion members were advised to "steer clear".

Back in March, Auckland-based John Edward Butler Ltd received an invoice from Pen Publishing claiming an "amount due" of \$380 for advertising in *National Farm and Safety*.

Neither this company, nor its advertising agency, Blue Skies, had ordered the ad, they said. Neither the invoices for *National Farm and Safety* nor invoices for *Hotel and Motel Tourist Guide* gave the name of the publisher, just a secretary's name, address and post office

box number where the money was to be sent.

The address given was that of Chhima's solicitors, Patel McLiver and Parbhoo, where *NBR* found Chhima visiting.

Why was Chhima billing companies for *National Farm and Safety* when the magazine had not even been published, we asked.

"Well that's the way we do business," Chhima said.

Wasn't this sort of hilling for unauthorised ads in a non-existent magazine the sort of *pro-forma* invoicing outlawed in the Unsolicited Goods and Services Act, we wanted to know.

Chhima seemed unsure.

NBR asked if Chhima could produce a written order for the ad from J E Butler Ltd. He said he could not, but he maintained the ad had been authorised over

the phone by J E Butlers' ad agents, Blue Skies.

Blue Skies denied authorising the ad.

NBR suggested to Chhima that most publishers received orders for ads in writing before demanding payment and usually published the ads before asking companies for the money. "Well, that's the way we do business," Chhima said.

Chhima's operation, and others like it, are the sort of publishing ventures the Business Press Association is trying to stamp out by suggesting that advertisers see proof of circulation by audit rather than buy a pig in a poke.

But this doesn't cover the possibility of an advertiser sending money to an address thinking he had bought an ad in a different publication with a similar sounding name.

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New weekly launched

ALAN HITCHINS, phone-smashing ex-editor of *Sunday News* has launched a new weekly newspaper in Auckland.

Hitchins, who spent the last three years in the United States trouble-shooting for press mogul Rupert Murdoch, returned to Auckland some months ago.

The new 36-page *Super Star Mirror* is a gossip magazine with the lowdown on TV, movie and pop stars and sportsmen. It is modelled on American publications, *Midnight Globe* and the *National Enquirer*.

The tabloid hits local dailies on Fridays in competition with New Zealand News's 8 o'clock and a jump ahead of the two Sundays owned by INL, *The Sunday News* and *Sunday Times*. Cover price is 30 cents.

Super Star Mirror's front page is four-colour editorial and offer advertisers four-colour, two-colour or spot-colour ads.

Editorial material is being supplied from the United States where Hitchins has jacked up New Zealand rights.

This is being supplemented with stories on the New Zealand scene.

Originally the paper was to have a 60,000 circulation. But the shortage of newsprint following the Kawerau strike cut this back to 25,000.

The ultimate objective is to go national with North Island papers printed by the Northern Advocate and a South Island edition printed by the Nelson Mail.

Advertisers wanting regional coverage only could be offered regional breakouts.

The paper is aiming at a family market with action comics.

The ad/editorial ratio will be about 50/50 when the paper is up and going.

Ad rates range from \$600 for a four-colour full-page to \$276 for a black-and-white full-page.

Less than full-page rates go at \$1.30 a column centimeter.

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POTENTIAL REACH: 105,000 MEDIA: MAGAZINES - FULL PAGE 4 COLOUR

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Insertions	Insertions	EXTRA COST
TIME 8 at \$1,451 = \$11,608	TIME 6 at \$1,451 = \$8,706	= \$20
NEWSWEEK 0	NEWSWEEK 6 at \$487 = \$2,922	INSERTIONS = +4
TOTAL: 8 = \$11,608	TOTAL: 12 = \$11,628	REACH = +12,000 (11.2%)
REACH = 51,000 (48.5%)	REACH = 63,000 (59.7%)	GROSS IMPACTS = + 2,000
GROSS IMPACTS = 256,000	GROSS IMPACTS = 258,000	AVERAGE FREQUENCY = - 0.9
AVERAGE FREQUENCY = 5.0	AVERAGE FREQUENCY = 4.1	

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Just one of 15 cases illustrated in the booklets where the addition of Newsweek to a schedule can extend reach considerably for no more, and often actually less money. On cost efficiency alone, Newsweek warrants inclusion in your agency's media mix. If it's not there, ask why. Because if it's not there, chances are you're not getting your share.



REACH FOR NEWSWEEK

AW/10

Mixed welcome to TV rates

by Grev Wiggs

TVNZ's travelling road show recently took the second half-year's programme goodies to Auckland, Wellington and Christchurch.

As expected, the video presentation was a thoroughly professional production and some of the new programmes previewed proved of keen interest to the admen audience.

A combined ratecard for TVNZ set out programmes, commercial classifications and rates.

Agency people generally reacted favourably to the new programme format. They considered it would further the dual aims of achieving better audience balance between channels with more attention directed to programme buying regardless of channel.

The changes would provide a more attractive and entertaining medium overall, according to one adman.

Richard L'Estrange, director of sales and marketing, announced a major simplification in the grouping of peak rates; a

special rate for the 6.30pm oews of \$2080 per 30 seconds, the introduction of a cancellation period of 42 days (to replace the current 28 days), summer rates of the order of 25 per cent discount for January and 10 per cent for February.

Although L'Estrange stated (in Wellington), "no rate increases in 1980", agency people are unconvinced.

"There is an effective rate increase," said one media planner. "But you can't look at rates without looking at programmes and the audiences they deliver. The more that TV fragments audiences, the less wastage, as you then buy just those special audiences."

One agency described it as a "hidden rate increase of about 8 or 9 per cent."

"TVNZ had worked out the opportunities for rate increases and they came to about 10 per cent across the board," said another agency.

The opinion of ANZA is that, depending on how time is bought, the new rates represent about a 12.5 per cent increase.

Many are critical of the new cancellation clause which calls for 42 days prior notice by either party. Cancellations or

amendments made within 28 days of telecast will be charged at full rates. Those made between 29 and 42 days of telecast will be charged at 20 per cent of the full contracted rate.

"A six week change period will so inhibit movement as to make weekly research results meaningless," was one comment.

Others were concerned about interpretation - does a shift in time mean a cancellation? What flexibility will there be if a slot fails to perform?

ANZA has indicated that it can live with the new clause, provided that the programme would not be changed within the cancellation period without the option to re-negotiate, that all the programme information be made available eight weeks in advance and that no changes in programme classification and/or rates be made within the period.

Overall, the new programme look met with a good reception.

But the steadily increasing

cost of TV is bringing the medium under closer scrutiny as alternative multi-media options are evaluated.

Account switch ends epoch

NO agency ever regards an advertising account as a permanent possession. But some agencies have achieved virtually a lifetime of custodianship, as this story recounts.

Back in 1930, the American agency McCann-Erickson picked up the account of German car manufacturer Opel. In that year Opel was taken over by General Motors.

From that point on, McCann's relationship with GM developed internationally. Eventually the agency was able to say that it had all the GM business outside the United States with the exception of Australia.

It wasn't until 1958 that McCann wrote its first GM business in the company's

home market.

In Australia, George Patterson was in the saddle and continued to dominate the account even after McCann set up an Australian operation.

When GM opened an assembly plant at Petone over 50 years ago, Goldbergs of Wellington, landed the business.

But all epochs come to an end. Ilott, which is owned in part by George Patterson, has announced the acquisition of the General Motors account dating from September 1.

This action brings to an end another long client association.

Ilott has resigned its share of the Todd Motors account with which it has been associated for nearly 60 years.

Long service medals are in order for issue all around.

The big spenders

IN measuring print media expenditure, the Press Research Bureau provides a valuable

service for advertising agencies and their clients.

The second annual publication of *Top Print Media Spenders* is a useful example.

It measures the total national advertising expenditure in 21 main product groups and lists the top three main spenders.

As could be expected, retailers, with a total approaching \$15 million, emerge as the largest product category and are headed by the biggest print user in the country, Woolworths, with a placement of more than \$2 million.

The automotive field, in addition to heavy TV schedules, spends nearly \$2.5 million but it is well spread between the various makes.

Despite the decline in building experienced during 1979, the total expenditure on building materials, supplies and tools was approaching \$2 million and the investment field, with the Government as No. 2 big spender, totalled \$2.2 million.

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Letters

Beefing up on pork

YOUR June 2 edition carried an article by Grev Wiggs on the recent pork promotion, spearheaded on radio by 12B and 3ZB. It describes the campaign as "a big success in Auckland" and said the Pork Marketing Board is "happy with the results in Christchurch".

On checking with the local abattoir manager in Christchurch we find that identical figures were attained for Christchurch and Auckland. In other words, the 3ZB campaign, promoted entirely on Christchurch's Number One breakfast show with Pat Courtney, achieved the same results as Auckland. It has been so successful in Christchurch that we believe staff were put on overtime to cope with the demand.

I trust this clears up any misunderstanding which could have arisen from the fact that figures for Christchurch were unavailable when your article was written. We understand that the Pork Marketing Board is so happy with the results that

they intend to repeat the radio promotion and I am sure that we at 3ZB can be even more successful next time.

E G Rowell
District Manager
RNZ, Christchurch.

Lowering exchange rate

THE current arguments about the reasons for the collapse of the textile firms of Mosgiel and Fibremakers serve to show up the futility of the present role of Government in the country's international trading.

As we have it now, the Government places a protective tariff on imports, then with the money pays a 10 per cent subsidy to exporters on the value of the goods that they sell.

Wouldn't the same result be achieved much more simply and cheaply by having a much lower exchange rate than we have now?

In spite of the fiddling by the Reserve Bank authorities our present exchange rate is overvalued, and as a result we are getting cheap imports and under-paid exports. The

answer is to have the value of the dollar internationally set by market forces by establishing a freely floating exchange rate, in conjunction with the abolition of all foreign exchange controls.

This would permit all exporters to make their own arrangements with the overseas currency they earn instead of having it controlled and confiscated by Government officials, and allow investors to decide for themselves how to get the best result from their funds, rather than be instructed on what to do by the Government.

Freeing our monetary system is just part of the general freeing that should be done of the economy from the clutches of the socialist attitudes, teachings and actions of the New Zealand establishment and political leadership.

G B Churchman
Wellington

Aluminium smelter

EVERY thinking person in this country will share the concern

of the Coalition for Open Government and Professor van Moesike at the proposal of the Government to encourage the establishment of a second aluminium smelter in the South Island.

The addition of a third pot line by Comalco at Tiwai will require most of the output from the Manapouri station to meet the demand of that company.

The proposed smelter will use almost as much electricity as Tiwai. Add to this the pulp mill at Nelson, the cement factory at Oamaru and other energy intensive enterprises, and it is obvious how temporary will be the present surplus of electricity.

New Zealand is subject to dry spells at regular intervals. The pot lines at aluminium smelters must have electricity for 24 hours a day, seven days a week. If this block of electricity is committed, electricity consumers will inevitably suffer restrictions in the future.

The Minister of Energy said that one of the justifications for the concession was that it eliminated the need for the transfer of hydroelectric power to the North Island, and that the power price to aluminium

smelters would not be subsidised by the taxpayers.

Approximately 30 per cent of the electricity used in the North Island comes from the South Island. To generate this amount in the North Island would require generation from New Plymouth (natural gas), Huntly (coal) and Marsden Point (oil). The cost of generation from these sources would be considerably in excess of power from the South Island, and the increased costs must be reflected in higher tariffs.

The Minister must be aware that at certain times of the year storage is full in the South Island and water would be running to waste if electricity were not transmitted to the North Island. The advantages of operating the two islands as a unified system are so obvious that the report of the Planning Committee on Electric Power Development assumes an enlarged inter-island connection by 1985.

The Minister is trifling with the truth when he asserts that power for the smelter would not be subsidised by the taxpayers. It will be subsidised by consumers of electricity, who are taxpayers. Moreover the export tax incentives — subsidies by another name — that the company expects to receive, will also come from the taxpayers' pockets.

Our own citizens should reap the benefit from the utilisation of our natural resources, not overseas multi-national companies. It is regrettable that any Government should put short term political considerations ahead of the national interest.

D J Boswell
Wanganui

DSIR denies duplication

THE suggestion that the survey of the New Zealand electronics industry commissioned by the DSIR in any way duplicates surveys undertaken by other bodies (NBR June 2) is unfounded.

The DSIR is conducting a

study which, unlike any other, is intended to be exhaustive.

For the first time an attempt is being made to establish a scope of the electronics industry, covering the number of organisations involved in manufacturing electronics, the products made and services offered, the technical capabilities and commercial base of the firms involved, their potential contribution to the development of industry in general, the problems which they face, and the support services which they may need in the future.

The generally positive response to the survey so far has sign that the inquiry is well founded. The industry, at least, is aware of the value of a sound information base if it is to play a major role in development.

Preliminary results indicate that the industry already sees the DSIR as an important element of the electronics infrastructure in New Zealand. The further development of this role seems to be widely favoured.

Every attempt was made to integrate into the present survey the needs of other support organisations without prejudicing the confidentiality afforded respondents.

With respect to the questions covering manpower needs, for example, we have consulted closely with the Electronics Industry Training Board. We are fully aware of the other industry surveys cited by your correspondent and have been in touch with the various bodies involved in them. However, we are also aware that these surveys have all been directed towards different groups of firms and towards different objectives.

With the present study we hope to be able to provide an overview of the industry which can lend weight to all their conclusions and which at the same time will enable the industry to make more meaningful representations on its behalf.

Phillip J McDermott
McDermott Associates
Auckland

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Name
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Occupation
Signature

Health

Sociological pressures knock out ageing teeth

by Belinda Gillespie

NEW Zealanders are a toothless lot. What's more, they are easily talked out of the few teeth they have left, and blithely swap them for a set of dentures.

Toothlessness — edentulousness as it's known in dental circles — is a way of life for about one third of forty-year-olds. The proportion increases as age advances.

Terry Cutress, director of the Dental Research Unit, one of the authors of the recently published "Survey of Adult Oral Health" said that sociological pressures, not dental disease, cause New Zealanders to abandon their natural teeth from their mid-thirties on.

The under-thirty age group, and even teenagers, are receptive to the idea of wearing dentures.

Once the dentist or family suggests the teeth should be extracted, "it's an easy move towards the toothless state," Cutress said.

Decay is not a serious problem in adults that age — all the teeth that are going to decay already have. The survey showed that, despite the low rate of treatment required by adults, there was a steady progress towards toothlessness. Almost 80 per cent of those over 65 have no teeth at all.

Just why people decide to have their teeth out remains obscure. The more socially privileged and better educated you are, the more likely your teeth will stay with you. Having been through the school dental system, on the other hand,

makes you more likely to have extractions.

False teeth are not regarded as a major source of social embarrassment, according to the survey. Missing front teeth and bleeding gums were rated far more of a problem in social contact. Bad breath was a cause of almost unanimous concern. The young showed a greater acceptance of extractions and dentures than their elders.

Although the rate of dental disease was known to be high here, until recently it was an article of faith that our dental treatment services were among the best in the world.

But the survey showed that the mere availability of dental services is not enough to ensure good teeth. What people think of their own teeth and what dentists think of them, and how the two interact may be as important. The ultimate aim of dentistry — perfect natural teeth for life — would be unattainable as long as the community looks on false teeth as part of the natural ageing process.

The New Zealand survey and other major international surveys have given us the data needed to break out of "the strait-jacket of preventive treatment." Future planning has to be based on data which reveals a far from homogeneous population in relation to dental health. Those disadvantaged in other ways are equally disadvantaged dentally — and future services will have to be planned accordingly, the survey states.

Teeth for life is a goal which is in reach for the next generation, according to Cutress.

"There has been an amazing improvement in the oral health of young adults over the last 10 years."

The improvement can be largely attributed to fluoridation of water. But has shown up in non-fluoridated areas as well, and has also occurred in the United Kingdom, Australia and the United States.

"One possibility is that the organisms which cause caries have become less virulent," Cutress said. "Another is that fluoride has become distributed through the food supply." Of the 3000 New Zealanders in the survey, a surprising 60 per cent used fluoridated toothpaste, which protects against caries.

Dietary change is another possible reason. Total sugar consumption has not changed



significantly, but less is eaten in the form of sweets, cakes and puddings and more is converted into soft drinks, alcoholic drinks, and ice-cream — all less cariogenic than sweet sticky foods which cling to the teeth. Although confectionary and sweet manufacturers have

reported declining sales, and home-cooking is on the way out, the survey showed that nearly everyone ate between meals, and about one third chose sweets, chocolate, cakes or sweet biscuits. Forty per cent reported buying sweets or chocolate in the last week.

Fluoride remains the overriding factor. Health Minister George Gair gave the facts in a recent speech. Since 1965 there had been a 64 per cent reduction in the average annual filling requirement per child and 58 per cent per teenager. Surveys of young adults in 1963, and again in 1976 showed a 20 per cent reduction in decayed, missing or filled teeth.

Cutress distinguished three periods in the history of dental disease in New Zealand. Until the 1920s there was a period of high prevalence of disease and

low treatment. The school dental service started in 1921 in response to the dental caries problem. Although it aimed to reduce the incidence of caries, its effect was only to "contain" the problem. Caries remained rife but treated, and more people started adult life with more teeth — only to lose them later. The period was one of "high prevalence, high treatment".

The present period is characterised by a move from high to low incidence of disease, alongside intensive treatment services. We now have the opportunity to reshape services and our own attitudes to dental health, according to Cutress. The survey called for the provision of a "preventive oral health care programme and incentives to retain natural teeth for the adult population".

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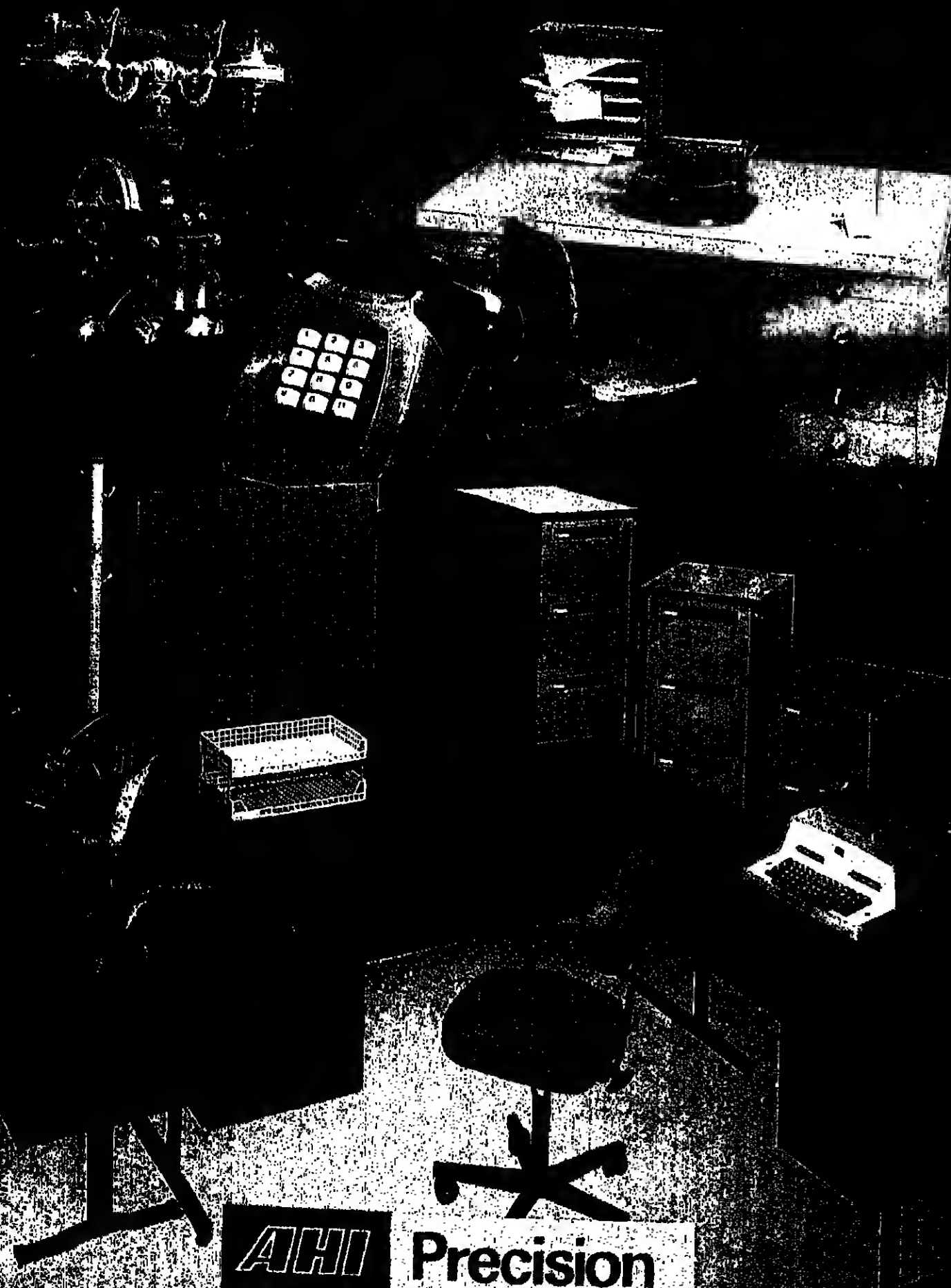
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Management

Optimism pervades multicultural industry outlook

by Lynn R Anderson

"OPTIMISM" — be it an attitude or personality trait — is easily observed: it produces hopeful confident attacks upon difficult problems.

New Zealand managers appear to be infected with a highly contagious dose of unbridled optimism.

Research conducted through the United States — New Zealand Educational Foundation and the Department of Management Studies at the University of Auckland, in the past few months, has involved a series of interviews with managers at several organisations in the Auckland area.

The interviews, informal and voluntary, were conducted to provide information for a management training programme in preparation at the Auckland University.

The 30 managers and personnel staff interviewed, discussed a wide range of current business topics including the rather sensitive and troublesome issue of the country's multicultural workforce — the topic of primary importance to the research.

Similar interviews conducted in both the United States and Europe made it obvious that the attitudes of managers here are unique. That uniqueness seems to be described best by management's optimistic attitude about problems arising from the country's complex, multicultural labour force.

The topic of multicultural work groups generated few optimistic comments from managers in the United States or Europe.

Optimism is an intriguing concept which, unfortunately, has not been precisely defined or extensively studied by social scientists or leadership theorists. Yet in every-day discussions, we find it relatively easy to identify people who are continually optimistic.

Such individuals are usually described as being able to look on the bright side of an event or issue. They are able to see some good arising out of any event or any work assignment.

Good "health" has been described (optimistically) as the best possible state of living. Good health has also been defined (pessimistically) as the slowest mode of dying. Optimists see the world in positive, hopeful terms.

The irony of optimism is that it is often unrelated to the objective facts of an individual's life.

Optimists often are hounded with enormous difficulties. But they are able to maintain hopeful attitudes and unflustered, cheerful personalities which may seem quite unjustified and possibly annoying to those who like to be realistic and level-headed.

Conversely, optimists probably find others morbid and despondent. Our common definitions of optimism almost necessitate this point of irony: optimists have problems to solve much as the rest of us.

It is this attitude toward problem-solving that is the central focus of psychologists' minimal research on the personality trait called optimism.

Although modern psychologists often employ more obscure terminology, such as "ego-strength", the research is closely related to the more common notion of optimism.

Confronted with serious problems, some individuals give up and admit defeat before any attempt is made to locate acceptable solutions. Other individuals ignore difficult problems or deny that a problem exists.

These problem-solving "strategies" most often generate failure and, if continually employed, may be indicative of serious psychological abnormalities.

On the other hand some individuals, our optimistic friends, are able to confront problems in both their work and personal lives, with an an-

produced little information and little discussion when the topic was mentioned. Managers suddenly became silent and morose or enraged about impossible government regulations and racial "quota" rules.

We expected that New Zealand managers would be either reluctant or hostile to our request for detailed information about company policies and practices concerning various cultural groups in the local workforce.

Unexpectedly, we found not only a willingness to discuss such problems, but an eagerness to provide access to

supervisors, foremen, personnel administrators and industrial relations staff within each organisation.

In a number of instances we were urged to walk through the company "plant" and discuss this issue with both supervisory personnel and employees.

Our first hint of the optimistic attitude of New Zealand managers was this complete openness in discussing cultural groups and the willingness to allow further survey data to be collected within the organisations.

Several managers were sur-

prised that we were interested in multicultural work groups. Their comments indicated that, there are some difficult problems with cultural minorities within their organisations, but they felt such problems could be solved through hard work and a little extra effort by the supervisory staff.

Managers did not deny that a problem existed and no manager indicated that it would be impossible to solve the multicultural problem in New Zealand (the "she'll be right, mate" philosophy).

Further optimism became

of the United States.

Managers unanimously felt that the local industrial community is now producing — and will continue to produce — a wiser solution to multicultural problems than that in the United States.

They were confident that they can avoid the overt racial conflicts which occurred in the United States.

Managers felt that their resolution of the difficult questions would be satisfactory for both industry and for the goals of the various cultural groups in New Zealand. But it was not going to be easy.

This attitude clearly reflects an optimistic outlook that, to those living in the United States during the race riots of Watts and Detroit, seems entirely "over-estimated".

But that is the irony of optimism.

All previous research suggest that this optimistic attitude will precipitate a hopeful attack upon a difficult problem with a strong probability of success.

Our interviews with New Zealand managers produced two common themes regarding the integration of a multicultural workforce: adequate training and flexible supervision. The managers felt that training programmes given to new employees could (and were) being modified to accommodate individuals with little knowledge of English and little experience in large factories.

The manager told us that "we assume all new employees are taking their first jobs and know nothing about the company or the machines. Training starts from scratch."

The statement applied to pakeha as well.

Managers also reported that their supervisory staff were expected to give "special" attention and consideration to individuals who were less experienced with life in a large factory or firm.

Supervisors and foremen confirmed this management policy and even indicated that they often helped minority workers with difficult government forms, and personal family problems.

The foremen did not express any great hostility to these "extra" chores, but seemed to feel it was inherent in their work assignment and inherent in company policies. And more importantly, none of the supervisory staff felt the task was impossible.

Again the optimistic attitude which was so obvious at the top of the organisation appears to have been communicated to lower levels of supervision.

A young, 26-year-old pakeha foreman at a large production plant expressed this flexible, optimistic attitude best. When we asked him how he was able to understand the wide differences in language and customs of the five or six cultural groups he supervised, he commented that "It is a matter of respect. I don't think the specific differences matter as much as the overall concern I try to show. All the problems can be worked out."

The statement, unqualified by "maybe" or "perhaps", is continuously optimistic.

Dr Anderson PhD, is a social psychologist at Wayne State University, Detroit, Michigan, US, who is presently at the Department of Management Studies, University of Auckland.



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participation of successful solution. Such attitudes permit extensive search and examination of many possible solutions and allow confident evaluation of the consequences of each solution.

A final solution is selected, even though the solution may be imperfect.

In short, optimists are likely to be good problem-solvers because they believe that problems can be solved.

Managers here, like in every country, have no shortage of problems to be solved.

Interviews with New Zealand managers focused on only one of these problems: the management of a multicultural workforce.

Previous interviews with

managers in the United States and apparent when management indicated their recognition of a problem and their hopeful attitude about their ability to solve the problem successfully.

The most impressive and encouraging comments were made by managers when we discussed comparisons between New Zealand's cultural groups and the black cultural groups in the United States.

Local management consultants are cautious about diving into the international, or even local, head-hunting scene, for fear of upsetting good clients.

Even internal head-hunting here is often characterized by a

two-year "fringe" agreement under which a management consultant undertakes not to poach a manager from a company on whose behalf he has just acted.

"The danger is that you alienate a good client," emphasises Torquill McCleod, Wellington manager of Warham and Associates.

Interestingly, the bigger flow of the head-hunted appears to be a reverse one — into New Zealand.

tural groups in the United States.

New Zealand managers do seem to be learning from the mistakes made in both the political and industrial sectors.

This applies mainly to company specialisation which, amazingly, take often a 10 per cent drop in salary when they set up here.

Peter Smiles, Auckland executive of IDPB, the computer staff recruiting specialists, stresses that his company is reluctant to head-hunt in New Zealand for much needed overseas staff.

"If we started, we would end up with no clients," he notes.

BEFORE.



1937. In America, it was quite a year.

President Roosevelt, back for his second term, stood confidently, whistling-by-the-graveyard as the nation headed into recession.

Days of brinkmanship and bankruptcy; economic and natural disasters led the people into an escapist mood.

"Gone with the Wind" was high on the best-seller lists.

A little girl in curls and dimples was Good-ship-lolly-popping her way into the hearts of millions.

Joe Louis began his long reign as heavy-weight champion of the world.

A man called Disney created a duck called Donald.

And a man called Robert F. Six created an airline called Continental.

1937. A time in aviation history when experience and experiment went hand in hand with courage and gall.

Not an easy year to start an airline.

Continental's beginning goes back to a fledgeling airline known as Varney Speed Lines.

In 1934, one of three single engined,

four passenger Lockheed Vegas lifted off the runway at El Paso, in Texas on a 520 mile flight to Pueblo, Colorado.

The plane carried 100 letters and no passengers. In fact, only 600 passengers were carried during the first year of operations.

What, a few years later, was to become Continental Airlines, in those days, employed just eight people. In Continental's first year the airline had 6 planes, and there were 29 on the payroll.

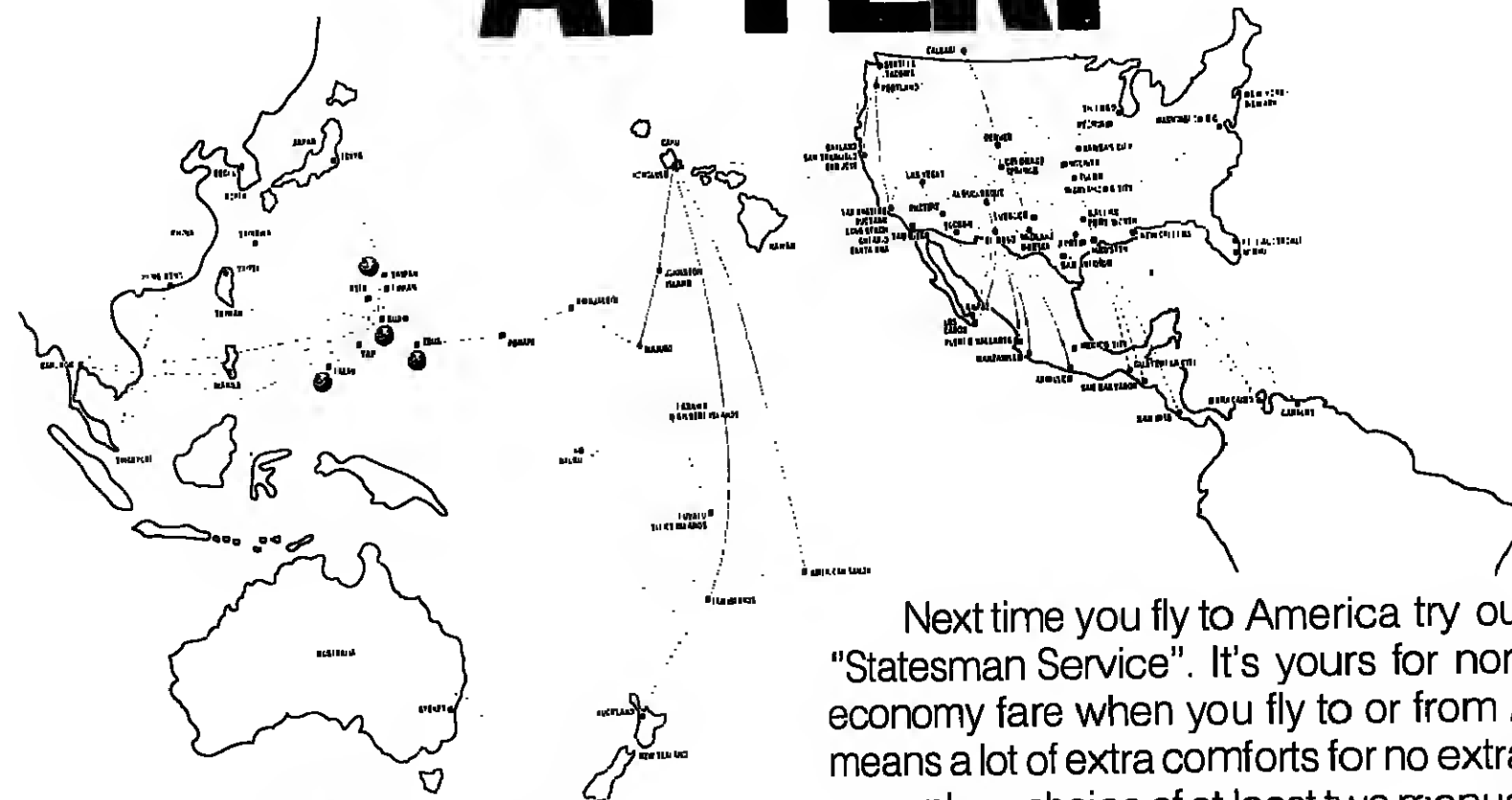
These were tough days to get any business off the ground and certainly not the best time to get an airline off the ground.

Today, Continental has grown to become an international airline flying over 9 million passenger miles with an all jet fleet of 70 aircraft



and employing over 12,000 people across the world. Someone once described the success as a mixture of "Brains, Backbone and Barnum and Bailey". Robert F. Six, now Chairman of the Board puts it this way.

AFTER.



"At Continental there is no such thing as a 'fare'. We only carry guests. If anyone of our people ever starts treating our passengers as anything else I'll close the damn airline".

"I think more and more Aussies and New Zealanders are flying with us because we're an American carrier that flies beyond California gateways deep into the heart of the United States and we do it with style, with warmth, so that they know our cabin crews are happy to have them aboard".



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Entrepreneur levers into cut throat razor market

by Lindsey Dawson
WHAT sort of man can sleep easily knowing he owes \$25 million? Victor Kiam, president of Remington Products Inc said he managed it when he bought Remington, the shaver makers, from the Sperry Rand Corporation under a leverage buy-out scheme in February last year.

Such deals have become increasingly common in the United States over the past two years as a way to fund takeovers by the raising of debt, rather than equity.

It was a gamble for Kiam, a go-it-alone buyout — almost all of it someone else's money. The Chemical Bank, Chase Manhattan and Sperry Rand helped him leverage most of the money for the unique one-man deal on the strength of his reputation.

By January this year he had paid back \$14 million to Chase Manhattan and the company was in the black.

"We had a hell of a good year," Kiam said. He increased Remington's American market share 7 per cent to 28 per cent, and was in New Zealand recently to boost local sales through his agent, Heatway Industries.

Competition in the electric razor business is cut-throat. Philips of Holland is the biggest with overall annual sales of \$16 billion. Gillette generates \$2-3 billion. Remington's annual sales of \$100 million are small by comparison.

Remington exudes energy. A restless chain-smoker, he paces the room as he talks. He says he works 19 hours a day and needs no more than five hours sleep.

On taking over Remington he acted ruthlessly. He closed down manufacturing plants all over the world, except for the home base in Bridgeport, Connecticut where 1000 workers churn out razors for a hairy world. He fired 100 executives — some earned up to \$75,000 a year.

He cut back on production lines and inventories, achieving higher unit volume and lower overheads, and dropped some prices.

His marketing strategy is to offer quality at reasonable prices. Good shaver technology already exists, he argues — so he has cut back on new product development and concentrated on advertising and marketing.

He endorses the product on TV ads. A natty dresser with a big smile, he beams into American homes with messages like: "Hello, I'm Victor Kiam. I was a dedicated blade shaver until my wife bought me this Remington Micro Screen Shaver because they said it would shave as close as a blade or they would give her money back."

"The first Micro Screen is so thin, it shaves incredibly close. The second even closer."

"I was delighted and impressed. So impressed I bought the company. The Remington Micro Screen will

cost you about \$35. The company cost me considerably more."

The story in the commercial is true. Kiam has had to sweat several affidavits to conform to truth-in-advertising rules. He did like the Remington — and when he heard that the company was up for sale he decided to go for it. "I wanted to get out of public companies — you're constrained to such a degree."

Not every businessperson, and not every bank, has his nerve. Kiam had worked with Chase for 15 years on five other companies which he pulled out of the red.

That is not to say he has never had his fingers burnt. One of his companies, the Benrus Corporation, which marketed watches, jewellery and Christian Dior products was hit by the Japanese digital watch onslaught.

Kiam, a Harvard Business School graduate, began his corporate climb 24 years ago as a salesman for Lever Brothers and moved up to divisional marketing director.

He shifted to the International Latex Corporation, and became vice president for marketing and then president of Sarong Inc, a Playtex subsidiary.

After his Benrus venture, he went into business with his wife Ellen, importing jewellery, antiques and artifacts from China. They hit the Peoples' Republic hard on Nixon's heels in 1975, and the business, known as the Friendship Collection, boomed. Projected volume in the States, Europe and London, where the company has a boutique in Selfridges, is in the region of \$3 million.

Ellen Kiam continues as chairwoman. Former associates from Benrus and Playtex are included on the staff. The company's next venture is to publish a magazine as a joint project with China's Ministry of Foreign Trade. Kiam, ardent capitalist, believes that an enterprise should pay its way — no subsidies and no bailing-out by governments simply to keep people in jobs.

"Bailing out Chrysler is a disaster. Everyone in the States is now paying to keep the place going rather than saying, look, sorry, it might be better to let the place go and employ people more productively somewhere else."

"Mazda in Japan got into trouble with their rotary engines because they were too fuel-expensive, but no way would their government help them out. They had to do it on their own. There's no point in maintaining inefficiency."

At the same time he's a believer in companies having a heart. "The problem with the big multinationals is that people see them as faceless monsters."

His factory employs no union labour. He believes in of-



Victor Kiam... concentrates on marketing

fering incentives to get the best from people.

Every department has an incentive scheme which



Advertising... "getting more bang for the buck"

provides bonuses for high achievers.

"If the advertising department gets what we call more

bang for the buck, they get rewarded. It's the same for the people on the factory floor and for the top executives. People like to work that way."

Victor Kiam said he has never met a race of people who continually depreciate themselves the way New Zealanders do.

"You have so many assets that you don't appear to be aware of. Compare yourselves with Japan — a country that's the same size. You have 3 million people. They have 120 million."

"Japan is really a poor country. They have to import everything. You've got so much space, so much natural wealth. Maybe the reason why you're not as prosperous as you should be is that you've sat back and let the land do the work for you."

"You're sitting on a pot of

resources that's going to be valuable in the next generation. If you can get drive and motivation, you'll be surprised how much this country is going to achieve," Kiam said.

Kiam's executives earn what he calls "average money." But their incentives are huge.

Last year the company received a bonus equal to 50 per cent of their salaries when they hit those targets.

This year they are aiming for 75 per cent, next year 100 per cent.

"I don't know what we'll do after that," says Kiam with a grin. "By then they'll be old enough to retire."

He is undoubtedly in the happy position himself. By 52 he has more fields to conquer. Besides, he is having a much fun.

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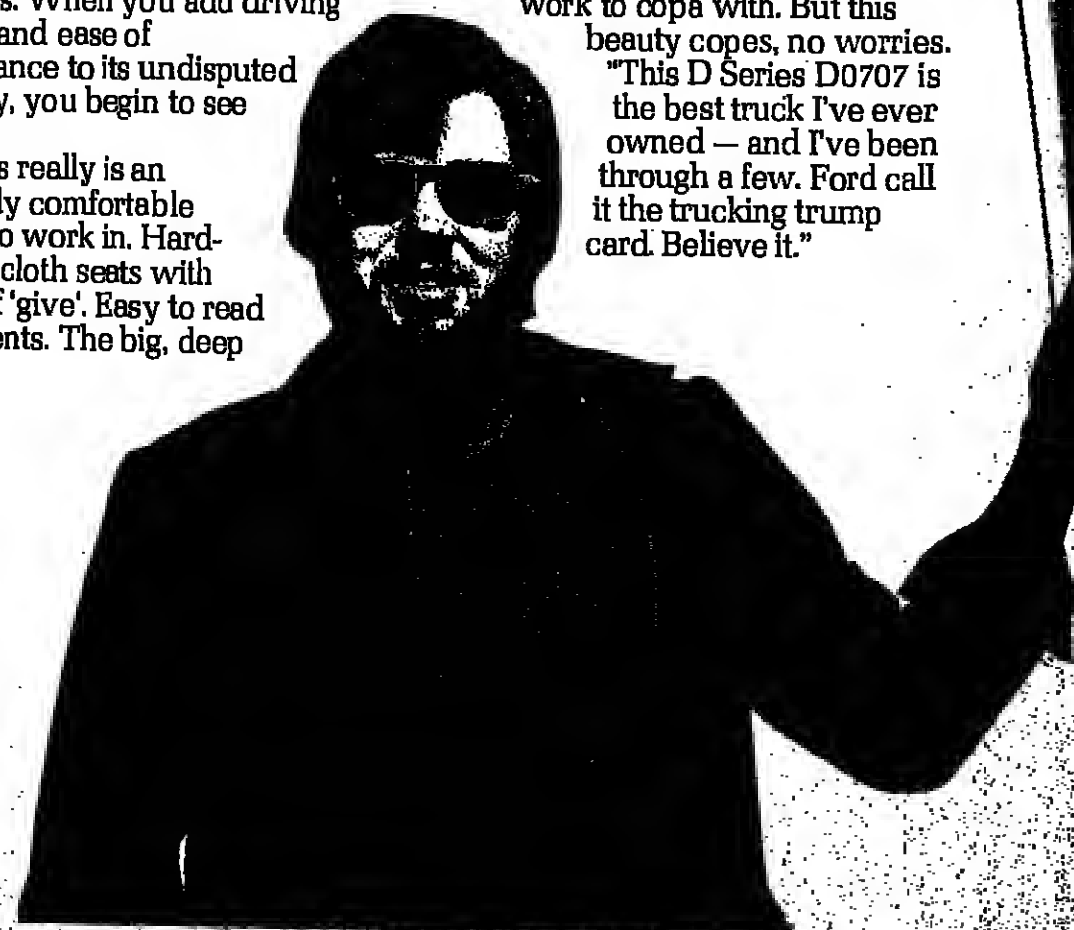
"This really is an incredibly comfortable vehicle to work in. Hard-wearing cloth seats with plenty of 'give'. Easy to read instruments. The big, deep

anti-glare windscreen.

"Maintenance is a breeze too, with detachable panels for easy daily servicing and the 'one-man' tilt cab gives easy access all round."

"With more work coming in recent months, I've been on the road more hours than ever. Trips up the Gold Coast and back a couple of times a week plus lots more stop-start city work to cope with. But this beauty copes, no worries."

"This D Series D0707 is the best truck I've ever owned — and I've been through a few. Ford call it the trucking trump card. Believe it."



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Railway capital equipment market keeps growing

by Bob Stott

THE new railway age has finally reached New Zealand with the recent Government decision to push toward a \$100 million electrification of the central section of the North Island main trunk line.

The prestigious *International Railway Journal's* 1980 world survey shows that in spite of deepening world recession the market for railway capital equipment was still growing fast.

The journal notes that capital expenditure in the non-Communist world in 1980 could reach \$32,000 million, almost a third up on the previous year's figure. The journal agreed inflation was playing its part in boosting this figure, but nonetheless, in a world of shrinking markets, the trend was

"bullish" to use its term.

Railways, which supplied full details to the journal (accounting for about 63 per cent of total route kilometres outside the United States and Communist countries) were planning to buy more than 10,000 main-line locomotives, nearly 4600 passenger coaches and 41,000 wagons in 1980.

For the first time in decades, production runs of equipment are becoming longer, with consequent promise of reduced prices in real terms. Manufacturers are beginning to compete for the really worthwhile contracts offering, and there is a constant cycle of development arising from operating experience.

The time is opportune for New Zealand to join in. Good equipment, thoroughly tested, is readily available, and sup-

pliers are already beating a path to NZR head office.

The survey shows New Zealand Railways as spending £31,173,000 in 1980, Sweden is spending £100,220,000, Switzerland is up for £227,519,000 and the Australian figure is £217,238,000. Among other small countries, Finland's total is £71,148,000, Eire's is £18,163,000 and Israel's is £5,556,000.

As might be expected, some big spenders are to be found in Europe, including West Germany 1,219,294,000; France £740,455,000; Italy £475,949,000; and Spain £354,904,000.

Developing countries tend to be strong on railways, and among the bigger spending nations in this category are Ivory Coast, Mexico, Nigeria

and Tunisia, all spending more than New Zealand, (and in some cases helped no end by oil revenues). At £264,150,000 Turkey is a big spender, and a poor oil-less country to boot.

Rapid transit is another growth area (but not in Auckland of course). Huge sums are being spent this year — £35,000,000 in Glasgow, \$63,000,000 in Chicago, \$127,000,000 in Cleveland, \$21,400,000 in Edmonton, \$394,700,000 in New York, and so on.

In Los Angeles, car city of the world, preliminary engineering for a 29km system started this year. The total cost of the system is expected to reach \$2000 millions. Miami, another car city, has already started and has budgeted \$340,000,000 for 1980.

So it can be seen that inter-

nationally, railways is again becoming big business, and quite trendy too (if it wasn't, would Los Angeles even contemplate a rapid transit system?).

Regarding fuel, the railway offers two advantages. Firstly, it is an efficient fuel user — although estimates vary, it seems generally agreed internationally that rail takes about a quarter of the fuel that road needs to perform a given transport task.

But probably more important is rail's ability to run on a variety of fuels, ranging from oil products right through electricity to industrial wastes... in fact a railway could be run satisfactorily on fuel pellets processed from domestic garbage. (Such fuel pellets have been produced, and they are suitable for thermal power station use, and the electricity thus generated is simply transmitted to electric trains.)

In the New Zealand context, railways provide about half our internal land transport needs, measured in tonne kilometres. Some lines would not be worth electrifying owing to the high first cost, but of course traffic is concentrated on just a few main routes, all of which could be ultimately electrified, and using energy produced from coal, natural gas, water, garbage, geothermal steam, wind, the tide... you name it.

In New Zealand, the environmental advantages of rail have hardly been considered, although local environmental concerns as to the effects of road transport occasionally surfaces, such as stock trucks spreading muck in a shopping centre, heavy rigs serving Auckland's container port, and speeding logging trucks in the Bay of Plenty.

A problem which bedevils proponents of rail transport in New Zealand is the fact that comparable road costs are not always clearly delineated. As a result the rail "loss" is always to the fore, and not compared with road's deficit.

It can be proved that commercial road transport doesn't meet its full costs... it might also be possible to prove that if a minority of trucks stopped avoiding road user charges there wouldn't be a deficit. Apart from that, is the basis for calculating road transport's share of the costs fair? Are the methods of levying the charges and collecting them fair? And so on.

Far better to accept that the nation needs a mix of different forms of transport, each tailored for particular types of work, each developed to its full potential in relation to the work which needs to be done.

As for the economies of the electrification scheme as announced, it is interesting to note that the fuel saving aspect doesn't amount to a great deal, simply because rail doesn't use much fuel anyway.

The real justification for the scheme is that the alternatives will prove more costly. Without electrification the central section of the North Island main trunk would soon reach capacity. It would need double-tracking in parts, or else some traffic would need to be diverted to road transport, which in turn would require extensive road works.

As railways have discovered round the world, once traffic reaches a certain level, electrification becomes highly attractive on economic grounds, and that's the stage we are almost at with the central trunk.

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Counting the cost of the Remarkable's skiffield

by Belinda Gillespie

ENVIRONMENTAL groups who take would-be developers to court are playing David to a Goliath.

Their slings generally aim at large commercial organisations which can afford to carry hearing costs, and stand to gain out of the proposed development. The local authority is usually the third party, equally unhappy to sustain large costs but likely to benefit financially from developments.

In an unprecedented decision last month, major costs were awarded against the Remarkables Protection Committee, the group which challenged the decision to allow the Mount Cook Group to develop the Ratus Burn skiffield at the western end of the Remarkables.

In an appeal hearing which lasted three weeks, the parties involved — the action committee, the Mount Cook Group and the Lake County Council — paraded an impressive array of expert witnesses before the Planning Tribunal.

In April the tribunal disallowed the appeal. The cost decision was delayed until June, when total costs of \$8500 were awarded against the Remarkables Protection Committee to both the County Council and the Mount Cook Group.

The decision marked the end of a seven year struggle between business and environmental interests. But it has not put environmental doubts to rest.

The Remarkables Protection Committee — a group representing individuals and bodies

objecting to the skiffield — was shattered by the June decision, which brought its total costs for the hearing to \$27,500.

The Town and Country Planning Board used not to award costs against unsuccessful appellants unless it found that their appeal was without merit, or lacked standing before the board.

But last year, coincidental with the Remarkables appeal, the tribunal put out a "practice note" stating that costs would be awarded where an appeal failed, or where the appellant failed to get substantial modification of the decision.

Gerald Tuohy, the lawyer who acted for the Remarkables Protection Committee, questioned the tribunal's statement, which he said "clearly places a new and different emphasis on the question of cost".

Appeals in hand had begun

before the tribunal notified the public of the new policy. Matters raised under Town Planning legislation regarding costs should not be treated the same way as actions in a court of law Tuohy argued.

"The general social issues traversed and resolved in matters of this kind place them in my view in a different category from ordinary civil litigation," said Tuohy.

"The possible sanction of costs must be a very serious impediment to the private individual who has a genuine town planning interest to preserve... The cost of litigation before the tribunal is already a substantial burden to be borne by private individuals.

"I believe the Act is designed to encourage public participation, as is borne out by the extended rights of objection

contained in the 1977 Act... (the) policy must have a seriously inhibiting effect on... persons of limited means with genuine competing interests requiring ultimate reconciliation by the tribunal."

Tuohy said that a successful appellant should be entitled to costs against an unsuccessful applicant. Without that the proposed practice would be a penalty against an unsuccessful appellant, without the compensating factor of an award for costs if it were successful. The whole effect "is such as to leave one with the impression that the tribunal is attempting to discourage appeals."

Tuohy's predictions have apparently been borne out in the Ratus Burn decision. Total costs awarded against the Remarkables Protection Committee were \$8500. In justification of the orders for costs — the highest ever made in respect of town and country planning appeals — the tribunal said they reflected recent cost increases.

The tribunal rejected the committee's argument that it should be exempt from costs on the grounds that it represented matters of relevant public interest where national, regional and local matters were involved, and that a commercial enterprise was the subject of the appeal.

"There is no doubt... that the appellant's case had merit," the tribunal said. "But that is not a reason for refusing an order for costs in favour of the respondent."

Chronology of events

October 1973: Mount Cook and Southern Lakes Tourist Company apply for leases of Ratus Burn Basin to Commissioner of Crown Lands. Application declined.

September 1974: Further application — supported by company's environmental impact report — declined by the Land Settlement Board, (chaired by Land Minister, Vann Young) which commissioned a Land and Survey study team to investigate the future of the whole Remarkables area.

December 1977: Company sends updated environmental impact report for audit by the Commission for the Environment.

February 1976: Sixty-six submissions received by the Commission for the Environment.

April 1978: Environmental impact report released. Commission for Environment recommends that the scheme should proceed in the form described, and that the Land Settlement Board consider overall recreational development of the area and other potential skiffield sites.

Company makes further application for leases to Lands Settlement Board.

March 1977: Remarkables Study Team report published. Public release delayed at request of Mount Cook Group.

June 1977: Study team's report released at the same time as company report on investigations following the audit. Public submissions invited within one month.

Study team recommends that only the Doolen's Creek Basin, a more remote area, is suitable for skiffield.

Company applies for leases of Ratus and Ootlen Basins. After considerable public concern, Minister of Lands extends time for submissions by a month.

September 1977: Land Settlement Board ignores Study Team recommendations and approves in principle the application to establish a skiffield at Ratus Burn.

October 1977: Remarkables Action Council formed to coordinate opposition to decision, and support recommendations of Study Team.

December 1977: Opposition by Land Settlement Board to issue of "leases to occupy."

October 1978: "Leases to occupy" issued. Application by company for Town Planning approval.

April 1979: Three day Town and Country Planning hearing hears 52 objections.

June 1979: Lake County Council consented to application for conditional use.

October 1979, January-March 1980: Planning tribunal hearing of appeal of Remarkables Protection Committee against Lake County Council decision.

April 1980: Appeal disallowed. Costs reserved.

June 1980: Total costs of \$8500 awarded against Remarkables Protection Committee.

In its last-ditch stand against the Ratus Burn decision, the Remarkables Committee enlisted a team of expert witnesses, including a geologist, engineer, historian and planner.

The tribunal took a favourable view of calling witnesses at the appeal stage, awarding costs, it pointed out, the additional expense to the Mount Cook Group in bringing in witnesses in rebuttal suggested that the applicant had treated the initial hearing as a "blame run".

Dr Ian Prior, former Chairman of ECO (the Environment and Conservation Organisation of New Zealand), and member of the Remarkables Protection Committee, said that this punitive view overlooked the \$19,000 it cost present the case, as well as many hours spent in volunteer work.

"The chairman of the tribunal acknowledged a high professional standard in the case, which must have helped of considerable help to members in their assessment of the scheme that the Mount Cook Group put forward Prior said.

The case could have far implications for future planning decisions under the National Development Bill said.

A working party of the Environmental Council recommended that environmental groups should receive Government funds to prepare submissions on matters of importance.

Recession imminent while we wallow in last one

by Michael Hirschfeld

THE next recession is on the way — and for a country like New Zealand that is still trying to cope with the consequences of the last recession, this is doubly bad news.

Some of the Carter Administration — aligned — economists are still saying that the downturn will be short lived and require nothing more than a modest and necessary adjustment.

Other economic forecasters, who have their conclusions on studies of the trends in all the world's major economies, are predicting that this recession will be worse than the 1974-75 downturn. It is this school that is gaining adherents, and it must be remembered that the 1974-75 recession was the worst postwar example of the down side of the economic cycle.

The economic indicators of recession in the United States took a long time to appear, with many analysts waiting throughout 1979 for the figures to confirm the already widely expected downturn.

Many thought that 1979 would be an opportune time for Carter to introduce financial restraints so that, by the 1984 election year he would be able to oversee an economic recovery.

Carter, for reasons that have not been adequately analysed, delayed decisions throughout 1979 with the result that inflation in the United States took off, and the value of the dollar plunged.

A consequence of this delay is that the recession that has now arrived will be significantly more painful.

One factor delaying the recession onset has been the plunge in an all-time low in consumer savings, which means that the current downturn is double-pronged: sharp credit restraints intertwine with the long-awaited consumer cutbacks.

The domestic United States market is so massive that when there is even a modest or purely sectoral convulsion, the figures can be rather awesome.

The Chrysler losses and the company's consequent finan-

cial plight have been in the headlines for many months.

On April 29, the Ford company announced that in the first three months of 1980 it had lost \$164 million world-wide.

This hid the fact that Ford's United States operations for the same period lost \$473 million, leaving its worldwide operations to recover part of the deficit.

In the words of Philip Caldwell and Donald Peterson, the two chief Ford executives, the "overall results in the first quarter were unsatisfactory."

One day earlier, General Motors announced a first-quarter profit decline of 87.7 per cent, which hides similar losses in its domestic United States auto production.

In the same week as the two car giants announced these calamitous results, two much smaller announcements shed light on the new economic realities.

In contrast to Ford's 45 per cent fall in domestic vehicle unit sales, the Japanese Automobile Manufacturers Association announced that its unit sales to the United States had increased by 21.1 per cent. On the same day the seventh-ranked United States oil company announced profits approximately three times greater than that of General Motors.

And struggling Exxon really made its executives sweat for their first-quarter, \$2 billion profit!

The impact of this sales decline in the auto industry becomes very clear when one examines the unemployment figures. Of the 783,000 normally employed by the big three motor companies, more than 220,000 have been put on indefinite or temporary layoff.

A similar pattern of declining results is starting to emerge in the construction, lumber and steel industries.

With mortgage rates at 16 per cent plus in mid-April, housing starts dropped 44 per cent below the rate of only six months earlier.

By May, the annual rate had fallen to below a million units per year, compared to the 1.87 million unit rate in September

1979. This was the worst drop in more than 20 years and signalled a housing level already below that reached at the trough of the 1974-75 recession.

Down the line, another 60,000 workers in the lumber industry were laid off or put into short term work.

The latest overall statistics confirm what the case studies suggest. The March 1980 drop in the index of leading indicators was the worst since September 1974.

The focus of economic debate has shifted from "if we are in recession" to "how bad will it be?"

Will it be the 34th recession to hit the United States since 1834, and if economics was really a science, then one might expect differing economists to be within a few decimal points of each other in

the calculations.

But this is not so, and many economists are endorsing the description of economics as the "dismal science."

While Carter's economists are just beginning to modify their "mild and short" prognosis, most economist's models are drawing their parallels with the 1974-75 recession.

But models are only as good as the information fed to them, and can make no allowance for politically motivated events.

The monetarist triumph over Keynes has been short-lived, even though its primitive analysis is still reaching a wider audience.

Clearly there are no simple economic prescriptions, if questions such as the price of energy have only marginal respect for the laws of supply and demand.

What would the models

predict if oil reaches the \$36-\$38 per barrel level by year-end, as predicted by several oil companies? And what market-place value system ever allowed for the fact, that the oil companies profits soar, instead of decline, while they happily accept a higher cost price for their stock in trade.

Despite the impact of monetarist policies, industrial groups and the trade unions have the power to protect their members' interests and the flow of international and speculative capital is largely beyond the control of national regulation.

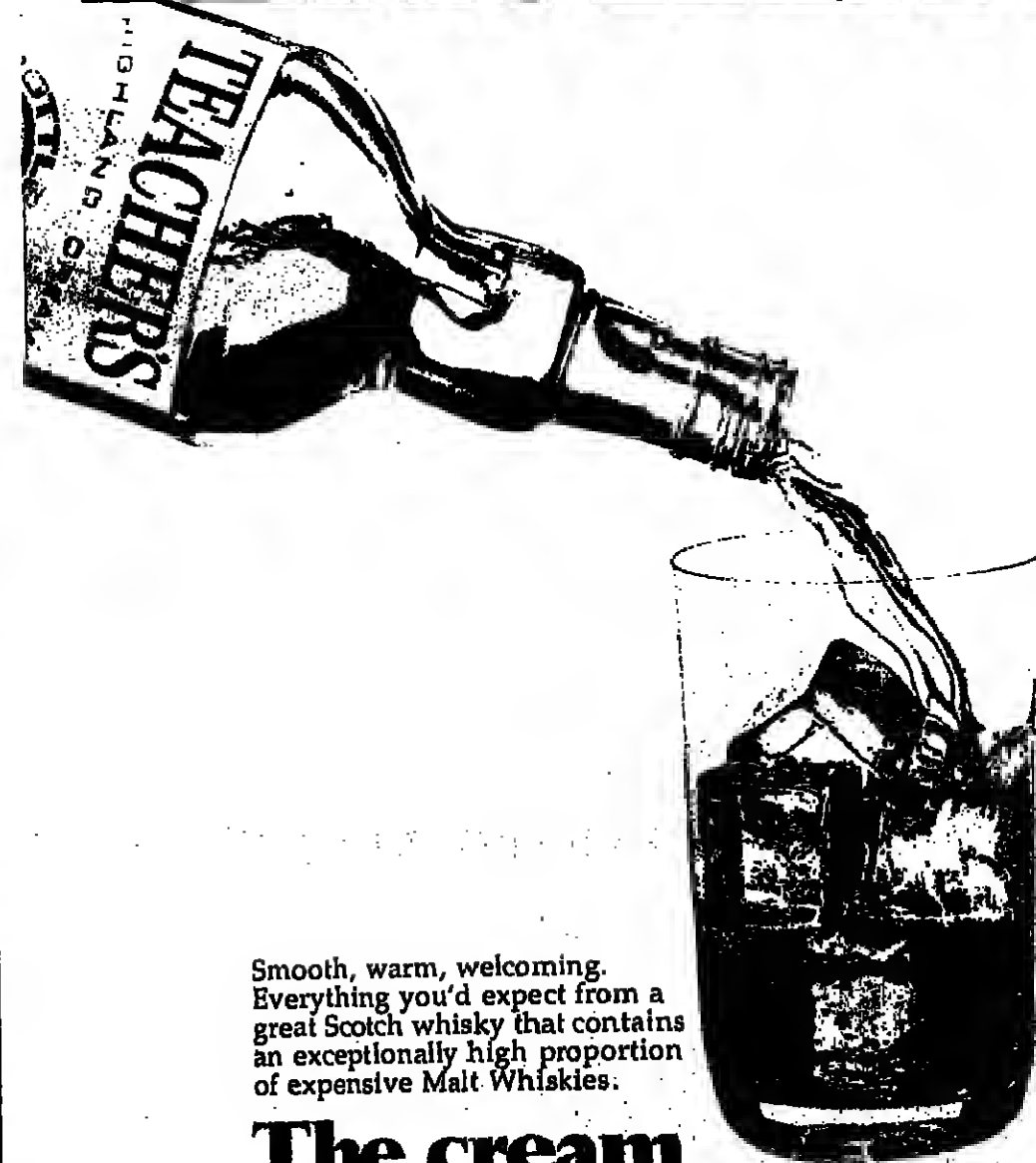
Slowly it is being accepted that no accountants' or economists' remedies can have a major effect on what is essentially a political problem.

Therefore there is a growing body of opinion that believes that no matter how severe the recession, the impact on inflation will be only modest and, even to the degree that it succeeds, will be only temporary in effect.

The danger that is now becoming talked about is that the 1974-75, 1980-81 recessions will be part of the rapidly worsening spiral with each stage seeing higher inflation, higher unemployment, accompanied by lower levels of productive and innovative investment and leading to the sort of business collapse that occurred in 1929.

Government now has greater power to intervene, making the collapse less likely, but the price may be persistent inflation. Views such as these do not come from a convention of depressives but were aired — among others — by a leading American economic consultant and a prominent German banker.

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The arts

Theatre group gains generous response

AUCKLAND's business community has responded generously to a call for funds from a small local theatre group.

The fledgling Studio Twelve Theatre Trust and Drama School could not have survived waiting in the long queue to the Arts Council coffers.

Instead it appealed to the cultural consciences of the commercial sector and to date 30 business houses have contributed more than \$7000 in cash, materials and services.

Studio Twelve Drama School was set up under the direction of Latin American Pedro Arevalo early in 1978. A performing group grew from the school and has recently drawn good houses in Auckland.

The sponsorship list is diverse — from a bank, to radio stations, restaurants and re-

tailors. Group spokesman Stephen Taylor is optimistic about adding to the sponsorship list and said support to the tune of \$20,000 a year from local business people would "not be an unrealistic aim".

Studio Twelve presents possible sponsors with a professional looking publication on aims, activities and finances.

The publication says: "We have budgeted to make an operating profit this year. However, this can only be achieved with your assistance and that of companies like yourselves taking a positive stance in the sponsorship and encouragement of the arts in New Zealand."

Taylor points out that his group would not exist without current sponsorship. "Ultimately we should grow into independence."

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Rotorua, 8 Days, Staying at the Travelodge, with tours of Whakarewarewa Reserve and Agrodome Agricultural Show. Normally \$192 from Auckland, with vouchers \$142.

Nelson, Picton and Wellington, 8 Days, including launch trip to Queen Charlotte Sound, day tour from Nelson to Pupu Springs and Marble Mountain and Nelson, Blenheim Coach Trip. Normally \$304 from Auckland, with vouchers \$254. Normally \$289 from Rotorua, with vouchers \$239.

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Companies office fickle files under review

by Warren Berryman

KENDON Mills Muldoon and Browne, the Prime Minister's accountancy firm, was understandably embarrassed when financial journalists discovered that its office was named in Companies Office files as the registered office of the Millstone group of companies owned by drug king Marty Johnstone.

The accountancy firm placed a letter in the Millstone files saying it had never acted for the Millstone group and had repeatedly (since February 12 1976) tried to have its name removed as the registered office.

In spite of this Kendon Mills Muldoon and Browne remains the registered office of the Millstone group, according to Companies Office files. And it must fork out its own money to have its name removed from the files.

The registration procedure at the Companies Office means that what happened to the Prime Minister's firm could happen to anyone.

Companies Office files contain names of directors who are not directors, shareholders who are no longer shareholders, registered company offices that are not and sometimes have never been, registered offices of the company named, and names of people supposedly acting as company secretaries who have sometimes never even heard of the companies they are listed as acting for.

Many people whose names are listed in company office files have been dead for some time.

Financial information in Companies Office files is usually out of date, almost al-

ways incomplete, and often inaccurate.

So why bother with a Companies Office at all? What use is the information stored in the 112,000 files to a potential creditor or investor?

The Justice Department is addressing itself to such questions in a review of the registration function.

As a preliminary step, the department wrote to interested parties involved in the registration function and asked them to set out their own ideas.

The letter started with the premise that there are documents which ought to be registered in a public office for the protection of creditors and investors.

The letter mentioned the duplication of information held at the Companies Office and at the registered office of in-



PM's firm... wrongly named as Millstone's office

dividual companies. It mentioned the possible rationalisation of legal requirements to register information.

The prospect of having all information filed only at each individual company's registered office and of having the information available to credi-

tors and investors might appear attractive as a means of avoiding duplication. But having one's place of business open to the public could lead to extra hassle for a company concerned.

Some documents required to be registered are almost meaningless to those searching the file. The memorandum of association supposedly telling the reader what the company was set up to do, for example, is usually presented in a multi-page photocopied stock legal form saying the company can do almost anything and everything. It might be simpler to replace this with a one-page form setting out what the company does not intend doing.

A potential creditor poring over Companies Office files will not find sufficient evidence on which to base a decision. For a start, the information in files is usually out of date.

It would probably require many extra staff to bring the 112,000 files up to date.

If a file is up to date according to legal requirements, the annual return can be up to 12 months out of date. And the information legally required is scanty.

The company may be far worse off from a creditor's point of view than the position shown on the annual return.

The annual return may show registered debts that have been since paid off leaving the company in a far stronger position than is shown on the files.

The law requires that a company reveal to the public only certain classes of indebtedness — debentures, mortgages, and so on.

But a company may owe millions, be teetering on the edge of bankruptcy, and have a clean slate on its Companies Office file.

A company is required to provide the Companies Office with an annual return showing a registered office, shareholders, directors, and so on. But even this information is frequently incorrect.

Companies Office personnel frequently write to a company's secretary or registered office for details and receive an

answer from that secretary's office saying they have not heard of the company concerned.

These same personnel have written to directors named in Companies Office files only to be advised that they are not directors.

There are 44,000 companies in the Auckland Companies Office alone.

Tracking down directors and shareholders to bring a filing up to date is a major exercise. Financial archaeology. The result might be the uncovering of a \$100 capital company find it has not traded for half a decade — a fruitless exercise to all concerned.

The people the system is supposed to protect the public against, are too clever to turn anything inward in a public record.

At best the Companies Office is just a starting point for a few addresses and spelling names right.

As the situation stands, lawyer can come into the Companies Office, fill out forms naming registered office, shareholders, company secretary and directors, and have accepted without the Companies Office checking with people named to make sure they are in fact directors and so on.

It is possible for any able to appear as the registered office of a company without knowledge or consent of the company at that address.

One possible solution to the problem would be a requirement for a sworn statement from the people and companies named saying they were acting in the role that the file says they acted in.

No such requirement exists. Instead the Companies Office relies on the declaration of compliance filed by the selector without checking.

Until procedures are tightened, the Companies Office is an expensive method of telling the public what companies want it to know, rather than what they don't want the public to know, with no assurance that the meagre information legally required is correct.

July 7, 1980

Producers hold trump up their collective sleeves

by John Draper

BELGIAN shipping magnate Tsvi Rosenfeld's ABC line is the producer boards' trump card when it comes to negotiating freight rates with the conference lines.

And like all trump cards, the boards would rather keep ABC up their collective sleeves than played.

For if Rosenfeld was successful in winning between the 10 per cent and 30 per cent of New Zealand's exports he seeks, then the conference lines will almost certainly invite him to join the club.

There, the advantage of ABC would end. ABC is seeking to join the conferences serving Australia, but as yet has been rejected.

Unplayed, Rosenfeld and ABC will strengthen the producer boards' hand when it comes to renegotiating freight rates.

Justifiably, Rosenfeld already claims to have had a beneficial effect, saving the Wool Board millions of dollars.

Last year the board extracted a three year contract from the NZESA Conference allowing for an annual increase in rates of only 5 per cent. ABC's offer to carry wool to Europe was a decisive factor in those negotiations.

Rosenfeld is now asking the board to announce that it will not continue with exclusive

contracts beyond 1982, when the present arrangement expires.

Its decision and the reaction of the Meat Producers' Board to the findings of the High Court, which case Waitaki-NZR is bringing later this year, may determine whether Rosenfeld continues to call at New Zealand ports beyond 1983.

But unlike other lines which have sailed away, disillusioned with being the trump that was never played, Rosenfeld will be close at hand, at least until the mid-1990s.

Already ABC, which has secured a bulk contract in Australia, is forcing the conferences to cut rates southbound. One conference container ship, has been pulled off the route as shippers move to ABC.

Rosenfeld claims to have saved Australia more than \$100 million in lower rates.

As an example of the rate cutting on southbound cargoes, he quotes West German refrigerators. The original conference rate was \$6000 for a 20ft container, he said. ABC offered to carry it for \$4800 and the conference responded with a rate of \$2400, a 60 per cent saving for shippers with benefits for importers and eventually the consumer as well as in the national interest through a lower import bill.

Ironically, lower freight rates for Australians could mean higher rates for New Zealand.

TWELVE years ago the Exports and Shipping Council held a forum credited with giving birth to the New Zealand national shipping line, later the Shipping Corporation.

The second conference in Wallington at the end of June focussed on "New Zealand's present and future shipping needs", and more specifically on and rising freight rates by allowing the competition bid against the conference lines for primary produce cargoes to Europe.

There are insufficient cargoes.

Yet the mainstay of Bott's argument against the producer boards following the Australian Wool Corporation in putting up a proportion of cargo for tender, is that the remaining bulk would inevitably suffer as higher costs were spread over a smaller volume. Federated Farmers' dominion council has recommended that 20 per cent of primary produce cargoes be put up for tender.

And Bott added a further weapon to the board negotiators arsenal when he told journalists that this year's 25,000 tonne drop in New Zealand lamb shipments to Britain would actually save the NZESA Conference money.

Bott argued that the peak kill was carried in conventional ships which arrive loaded with ballast. The drop in shipments to Britain in favour of those to Iran, meant four conventional loss-making sailings were saved from the originally scheduled programme of 10.

The conferences are ambivalent on that point. Alan Bott, chairman of both the New Zealand Europe Shipping Association and the New Zealand/United Kingdom Conference OCS, said the conferences are able to regulate tonnage and therefore costs by removing ships when

Both OCS and NZESA are understood to be the only two conferences in the world using replacement cost in the rate calculations. However, the conferences seek a much lower profit, understood to be a single figure percentage, that is less than 10 per cent, and based on an average obtained by Britain's top 100 companies.

For negotiating purposes, the exorbitant rate is indexed at 100. All additional costs incurred are further indexed, the result averaged to be tossed into the bargaining ring.

As shippers, other than Rosenfeld, pointed out at the recent Exports and Shipping Council forum, the basis is riddled with iniquity.

First, there is an assumption that past and existing methods of operation are the most efficient and that there have been no major changes.

Secondly, that the conferences will want to replace their ships with identical vessels in 15-20 years time.

The conferences rebut both points.

The first, Bott told NBR, would be resolved in the hard bargaining.

The second was necessary not only for the purpose-built ships on the Australasian trade, but because of investment in other special port facilities — special the conference opponents claim in that they cannot be used by the ships operated by

non-conference lines.

As expected, the two day forum focusing on "New Zealand's present and future shipping needs" provided a fight between ABC and the conference lines.

Rosenfeld's blows to the conference's soft, plump underbelly, were fended off by Bott with glossy brochures and colour charts.

Yet the conferences can hardly have left entirely happy. The producer boards and other entrenched interests — and nearly all of the 300-plus delegates had their own views to push or defend — supported the conference system as providing a "reasonable" service to achieve New Zealand's objective of orderly marketing.

But conferences were left in no doubt that their services were thought of as expensive and that there was plenty of scope for improvements to bring increasing efficiency and lower costs.

And there was also the veiled hint that unless the conferences did look carefully at their operations, the ABC trump might yet be played.

The conferences' usefulness is also declining. OCS, in particular, has been a strong voice lobbying for access for New Zealand lamb and dairy products to the EEC. With the end of that battle in sight, OCS's voice in Europe will no longer be so important.

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Shipping

Questioning the benefits of containerisation

by John Draper

RISING internal freight charges stemming from the Government's murky transport policies are outweighing the benefits of containerisation, Auckland Harbour Board chairman Bob Carr told the recent Exports and Shipping Council forum in Wellington.

And, until the Government decided on how road, rail and shipping services should be used most effectively in the national interest, with subsidies where necessary, there was little point in using "tempting bargain basement" shipping rates, he said.

"When we are considering the costs of moving cargo to and from our overseas markets, we should not lose sight of the point that port costs are not the major ones. They are overshadowed by the cost of internal transport and cargo aggregation."

Internal costs had been given a hefty boost by the Government's endeavours to

reduce the loss of New Zealand Railways, he said.

Shipping lines and shippers found hard to quantify the benefits of containerisation have been over the last decade. Conference lines spokesmen pointed out that 100 crews would be needed to man conventional ships to carry New Zealand's cargoes to market as opposed to the 30 now on container ships. And they said loading costs are typically 30 per cent less — \$600 to load 10 tonnes of meat in a container as against \$800 for conventional shipping.

Container ships do spend much less time on the coast, typically around five days as opposed to 30-40 days for a conventional ship.

But as importers, exporters and manufacturers point out, there are now a whole host of extra agencies, snags and hassles that all have an additional cost.

On specific services, the advantages of containerisation

can be seriously offset by health and hygiene regulations, as in the United States where all meat carcasses have to be unloaded, inspected, certified and re-loaded — an added cost over conventionally unloaded cargoes.

Dairy Board general manager Bernie Knowles said an in-house study showed that the board would be paying 4 or 5 per cent more in freight if it went back entirely to conventional shipping.

"But because we don't know enough about the differentiation of costs between conventional and container vessels, and because everything ends up in an average anyway, we cannot be sure as to whether the container is the right thing or not."

But no-one disputed New Zealand's high internal transport and loading costs.

Bob Whyte, general manager of Blueport Act (NZ) Ltd, told the forum that waterfront productivity was "now lower than at any time in the last 10

years" for loading meat into conventional vessels.

Harbour Board costs had "risen alarmingly", partly to cover the interest payments and exchange losses on Swiss loans for container terminals, he said.

On the waterfront, compulsory retirement and a voluntary redundancy agreement had failed to reduce the labour force in line with lesser requirements of containerisation.

"We are faced with the position where total hours worked represent only 60 per cent of the total paid hours which include holidays, compared to 77 per cent in 1971."

As a result, the Waterfront Industry Commission is dipping into reserves to pay for idle time, and by September, \$4 to 5 million would have been paid out, he said.

"This is appalling cost

management and is frittering away our hard-won reserves which are necessary to provide a buffer against fluctuating cargo flows from year to year while at the same time avoiding the problem of the necessity to reduce overall costs."

The Waterfront Industry Commission is funded by a levy on cargoes.

Whyte was also critical of employers' organisations on the waterfront, including harbour boards, for not forming a unified body.

The result had been slow-on costs from one agreement to another, he said.

Transport costs were also escalating, though in simple terms it was still cheaper to move cargoes to the ships rather than the ships to the source of cargoes, he said.

And regional development

could not be funded by the shipping lines serving ports where there was insufficient inducement by the tonnage of cargoes offered, he said.

Auckland Harbour Board chairman Carr concurred, though mainly with the view of getting the greatest throughput for the board's \$100 million investment in facilities.

Auckland handled more boxes, but not at the cheapest rate. Wellington achieved the lowest rate for reefer boxes, \$8, though by almost the same margin, Auckland was cheaper for general cargo.

Both South Island terminals were more expensive, Lyttelton \$20 more so than the Chalmers reefer boxes — the price of a political decision: allow two South Island terminals.

The good times may be over soon

PROFITS on the New Zealand Australia route from Europe and North America are among the highest anywhere in the world.

British lines make four times as much profit carrying cargoes from down-under to America as they do on the much higher volume North Atlantic route.

The London Economist reported recently that though only 1.5 million containers are moved across the Pacific from Australasia annually, the "run is long and lucrative". But the good times may be over, not only for the British lines but for the West German, Swedish and others serving the trade.

Early last month, the United States Justice Department demanded documents from the American offices of seven

shipping lines, which control all the container trade between the three countries, to launch an anti-trust suit against the conferences to which they belong.

According to the Economist: "Nobody is quite sure what sparked off the trustbuster's investigation, but decisions by Australian and New Zealand agencies (producer boards) about who carries what have been controversial."

The Australian Meat and Livestock Corporation's decision to kick Refrigerated Express Line off the route, because it is not a containerised carrier, is thought to have had some influence.

Shipping companies serving the North Atlantic are still fuming over last year's damage jury indictments which landed

seven shipping lines, and officials with \$6 million in fine. They now face 34 private and possible further damages of \$1.5 billion.

Belgium's usually non-conference ABC line is among those under investigation along with Scandinavian-owned Benelux, ACTA — a consortium of British lines — Columbus — West German — United States — and the Australian National Line.

ABC was pressurised into joining the conference, and a fee the American's may not consider as restraining competition.

ABC is trying to tempt boards with lower rates, but without some cargo from the boards, his services to Auckland are uneconomic.

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Shipping

Competition most sensible policy — IAC chief

INBRED inefficiencies expand costs to fill any schedule of freight rates where shipping conferences stall, Australia's Industries Assistance Commission chief Richard Boyer told shippers and farmers recently.

The result is high shipping costs while the monopolists and ship owners apparently receive little, if any, excess profits — "surely the worst of all possible worlds" he said at a workshop on "The Economics of Shipping Australian Agricultural Exports" in Adelaide.

The lack of excess profits by the shipping conferences serving Australasia was also explained by the lack of impetus to innovate, or optimise efficiency, he said. There was less incentive to pursue other than the easiest and most convenient routines and practices.

"In effect, monopoly profits are taken in the form of a quiet life and the extra profits do not appear in the balance sheet."

"There could be no half-way house solution to the inefficiencies associated with conference shipping. Partial deregulation of the conference system — such as the open conference arrangements which operate in the United States, is not an answer. Closed conference members agree with that," Boyer said.

Open conferences provide a facade of competition. Firms can enter or leave the conference but the essential feature of price competition is absent. Under open conference arrangements it continues to regulate freight rates. This combination might involve a greater misallocation of resources than closed conferences, because shipping companies can freely join a conference which could result in further excess capacity.

A recent ACT (Australia) publication showed that on the United States/North Atlantic European trades an open conference system had approximately 68 per cent capacity utilisation, but a rationalised service had a potential capacity utilisation of 85 per cent.

"This reinforces the analogy of the half-way house approach — competition which is restricted to the service offered does little, if anything, to combat the inefficiencies inherent in conference shipping; price competition is also essential," Boyer said.

Other inefficiencies and costs likely to be associated with conference shipping include the proliferation of bureaucracies to support conference arrangements and protect the interests of shippers, institutional rigidities in freight rates, cross-subsidisation of

export traffic and the advent of high cost national shipping lines.

Conference claims that shippers are provided with the benefits of a regular service "sound plausible and attractive superficially". How could anyone be opposed to a regular service?

But what is meant by a regular service — one visit a year, one a week or one every five minutes? Once a year would hardly earn many markets but the five minute routine, though the ultimate in regularity of service and convenience to shippers, would obviously price Australian exporters out of virtually every overseas market because of associated costs.

"The optimum situation lies somewhere between these two extremes but with the potential for very great costs if we do not get the answers right," Boyer said.

The right balance between costs and regularity would vary over time — sometimes rapidly and unexpectedly — and inflexibilities in changing frequencies could impose substantial costs.

The more frequent the shipping service the greater the operating costs to shipowners and thus, the higher the cost of export to shippers. Finding the balance between the two is of critical importance for agricultural producers and Australia.

Under a competitive situation the quality and regularity of shipping services would differ from that of conference shipping. Services might be more or less frequent, duration of voyages might vary and different vessels might be employed.

This means that shippers would receive a particular combination of price and service — the balance between cost and regularity which is most appropriate to their changing circumstances.

Pro-conference advocates argue that competition is incapable of ensuring provision of adequate liner services because of the high fixed-cost component of liner company operations. Under competitive pressures price will fall below the average cost and therefore eliminate the service they argue.

Prices would undoubtedly fall under competitive pressures in situations where the existing supply of services on a particular route exceeded the demand for those services but this price fall would have the beneficial effect of eliminating the excess services, and would reduce costs. Provided that on any particular route demand was sufficient to cover long run average costs of an efficient supplier, services would not be eliminated, irrespective of short run fluctuations.

Services would be provided in a competitive environment and there is no case for not letting the market determine the nature of these services, Boyer argued.

"It is misleading to pretend that the periodic emergence of over-supply situations makes the market mechanism impractical."

The competitive nature of bulk shipping, voyage and time charter rates fluctuate in accordance with variations in the demand for, and the supply of

bulk shipping. The bulk carrier market has adequately met world requirements for bulk transport, Boyer said.

There are large fluctuations in the charter market for tankers. But, a free market does not preclude the chartering of a vessel for up to 20 years if that is the mutually most beneficial balance of interests between the shipper and the shipowner.

"I can find no sufficient reason for Australian shippers, who in this field are predominantly agricultural producers being denied the substantial benefits which believe a competitive liner market would bring them," Boyer said.

On routes from Bangkok to Singapore and from Hong Kong to Singapore there are a large number of vessels in liner

operation with no evidence of cartelised arrangements. In a recent study of these markets, it was found that rates closely approximated to costs and that the services were regular, efficient and relatively cheap.

Boyer acknowledged that it was difficult to establish whether the savings in the Australian situation would be greater or less than those estimated. The relative homogeneity of Australian exports might mean the potential savings from competition could be higher than on the routes mentioned.

In conclusion Boyer said he believed there should be no economic regulation of shipping. Competition must be encouraged if we are to obtain the most efficient use of our national resources, particularly

agricultural ones.

"Such an approach challenges tradition and will be opposed by some interests. But it is, I suggest, the most sensible policy particularly from Australia's viewpoint. Australia is an isolated continent, susceptible to a monopoly in the only presently feasible form of transport. It is tremendously important that because there can be little competitive pressure from other transportation forms, maximum competitive pressures are created within shipping."

Arguments and forebodings of doom prevailed before the breakdown of IATA controls resulting in a dramatic fall in air fares and increases in load factors to the benefit of passengers and airlines.

"Reliance on the market mechanism in the shipping industry would, I'm sure, yield similar benefits," he said. "About 60 per cent of the value of goods carried from Australia by the liner trade is agricultural produce — a large proportion of savings would accrue to agricultural producers."

"Major commodity groups possess bargaining power, for more competition and it is encouraging to note that the wool industry has, in recent years, undertaken trial shipments (outside normal conference conditions) which have resulted in significant savings."

"It would not be surprising if other agricultural producers emulated the wool industry in this field and for the reasons I have given, I believe it would be a good thing if they did," Boyer said.

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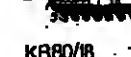
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